

Issue/Findings

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**Issue/Findings**

<u>Case</u>							
Year	Nbr	Industry	Date Recv	Date Closed	How Recv	Call Type	Note
2010	2362	Electric	8/24/2010	9/3/2010	email	Complaint	No
Pfx	Contact's First Name	Contact's Last Name	MI	Recv By	Asgn To		
Ms				WCC	WCC		

Consumer Issue

Why Is SCE&G able to change my bill without my okay to do it.

The eWNA is a form of budget billing to their advantage and not to me at all.

If I'd had wanted to use the budget billing I would have signed up for it. Now they can increase my bill whenever they want. They already have an increase every year so why are they allowed to do this.

I called there 800 customer service number as requested to learn more about it and they could not explain it at all.

This should not be allowed to continue.

Thank You

Investigative Findings

from am e-mail to customer:

As background, the WNA, (Weather Normalization Adjustment) is not a new concept. A natural gas WNA has been in effect since 1991. The electric WNA is a 12-month pilot program that was agreed to by the Office of Regulatory Staff ("ORS") and approved in the recent SCE&G rate case by the S.C. Public Service Commission ("PSC"). At the end of the 12-month pilot period, SCE&G, along with the ORS, will evaluate the E-WNA Program. Any changes to the E-WNA Program will be subject to approval by the PSC.

The E-WNA was not designed to be a form of budget billing. The E-WNA simply adjusts the amount of the customer's electric rate based on abnormal versus normal weather to level out the impact of unusually high or low temperatures on the customer's monthly bill.

Case Record

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Case	Year	Nbr	Industry	Date Recv	Date Closed	How Recv	Call Type	Note
	2012	2130	Electric	10/8/2012		Internet	Complaint	No

Pfx	Contact's First Name	Contact's Last Name	MI Recv By	Asgn To
			E WCC	WCC

Consumer Issue

Issue: My issue is regarding the WNA program that was implemented without my consent. I don't like it or feel I need it. I have been a home owner for 15 yrs and know how to run a household budget, including how to take steps to conserve my own energy consumption. I know that if I use it, I pay for it, so I don't understand the need for SCANA or SCE&G to come to my rescue, when I didn't ask for it. I realize that if it's hot outside, my AC will run more.....if it's cold outside, my gas furnace will run more. That is my right, and my prerogative. I pay my bill when it comes in.

There was already a plan in place for customers who wanted a balanced bill, called EPP (Easy Payment Plan) that afforded customers the option to pay a consistent rate throughout the year. Why was that not a sufficient resource for customers who needed it? Now we have a plan, forced on the consumer, that makes them pay higher bills when they use less. This simply doesn't make sense. I know that other bills may be lower, because of the WNA deduction, but again, I can budget on my own and do not need SCE&G to do it for me.

Where is the customers right and voice in this scenario? Where is the option to decide for myself whether or not I want to participate in this program? This seems to have been implemented because of one cold season in 30 years which is overkill. Anyone who has lived in the low country of South Carolina for more than a year knows that the average summer is "HOT" and the average winter is "MILD". Reason would suggest that the average person can figure out how to run their own household budget for themselves to account for seasonal changes.

It would seem if SCE&G want to help customers with their bills, they should try lowering the utility rates instead of raising them. Rates seem to change about every 6 months. This would truly be "helping" customers, not trying to "manage" their bills for them.

Sincerely & Respectfully.

Results Sought: I want the option to "OPT OUT" of the WNA program. When the weather is mild and my AC or Furnace doesn't run as much, I don't want my bills to be inflated to make up for when it was taken out at some other time. Let me pay my bill and manage my own financial affairs.

Case Record

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Investigation

Case

Year	Nbr	Industry	Date Recv	Date Closed	How Recv	Call Type	Note
2012	2130	Electric	10/8/2012		Internet	Complaint	No

Pfx	Contact's First Name	Contact's Last Name	MI Recv By	Asgn To
			E WCC	WCC

History

Began	Closed	Closed By	Recov Amt	By	Cnsmr Docs	Comp Docs
			\$0.00		No	No

Date	How Cont	Contact Name	Contact Phone	Ext
10/9/2012	T	Marsha Klatt		

Reply Due Date	Reply Recv Date	How Replied	Ext Given	Ext Date	How Adv	Adv By
						WCC

Comments  
requested wna details for electric and gas

Began	Closed	Closed By	Recov Amt	By	Cnsmr Docs	Comp Docs
			\$0.00		No	No

Date	How Cont	Contact Name	Contact Phone	Ext
10/9/2012	T	acknowledgment call to customer		

Reply Due Date	Reply Recv Date	How Replied	Ext Given	Ext Date	How Adv	Adv By
						WCC

Comments  
\* \* No Comments \* \*

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Year	Nbr	Industry	Date Recv	Date Closed	How Recv	Call Type	Note
2012	2127	Electric	10/8/2012	10/8/2012	telephone call	Inquiry	No
Pfx	Contact's First Name	Contact's Last Name	MI Recv By		Asgn To		
			SR		bwk		

Consumer Issue

Questions regarding notice of hearing for Docket# 2012-218-E

Wants to know if she would be able to discuss the WNA billing system at rate hearing. She says that she does not like the fact that rate is constantly adjusting. States that WNA should not be allowed as it alters company revenue based on weather and not what company is producing and consumer are using. States she does not want company's earning potential and financial stability to be based on weather. State that WNA does not encourage good business practices by the company nor does it encourage consumers to be conservative. Consumer wants rates to be set as they were in the past, and WNA done away with.

Investigative Findings

Provided information regarding notice / hearing. Told her the public hearings is the time that she may provide his thoughts on rates and WNA to PSC.  
Informed how to file letter of protest regarding proposed rate hearing and WNA.

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Case							
Year	Nbr	Industry	Date Recv	Date Closed	How Recv	Call Type	Note
2012	1555	Electric	8/9/2012	8/15/2012	telephone call	Complaint	No
Pfx	Contact's First Name	Contact's Last Name	MI Recv By	Asgn To			
			bwk	bwk			

Consumer Issue

Dear [REDACTED],

This is to acknowledge receipt of your email to our PSC Website Comments.

In March 2004 the General Assembly enacted legislation which created the Office of Regulatory Staff (ORS). As a result of that legislation, effective January of 2005, the Public Service Commission took on a quasi-judicial role and the Office of Regulatory Staff assumed other responsibilities. The ORS is a state agency whose mission is to represent the public interest in utility regulation for the major utility industries; electric, natural gas, telecommunications, water/wastewater, and transportation and railroad safety.

I am forwarding your email to ORS for handling. You may contact the South Carolina Office of Regulatory Staff by phone at 803-737-0800 or 1-800-922-1531. Additionally, you may also visit their website at <http://www.regulatorystaff.sc.gov>.

Please let me know if you should require any additional information.

Sincerely,

Deborah Easterling

[REDACTED]  
Sent: Wednesday, August 08, 2012 4:36 PM  
To: Contact  
Subject: question about SCE&G rates

Hi

All major news networks in my area reported that June, 2012 was the hottest on record since 1959. The major news outlets now declare July, 2012 was the hottest month on record, ever, in the U.S.

So how is it that SCE&G can send me a bill declaring that the average temperature for June/July 2012 was 3 degrees below average (from last year), and charge me a higher rate because of that? I am decreasing my electricity consumption by being 'energy conscious', yet

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my bill keeps increasing...and on top of that, ANOTHER rate hike is in the works? The rate increases (because of 'fuel costs') have not gone away, even though fuel is less expensive now than it was when they were allowed the increase. SCANA should not be allowed to pay one cent in dividends - the \$132 million they have paid out this year so far could go a long way in offsetting the things they claim to need rate increases for.

[REDACTED]

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**Investigative Findings**

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Found that weather data shows that 13 days of the 2012 bill were well below the normal and 19 were above the normal for the day time highs but the night time lows were mild; this lead to an over all lower tempature duringthe 2012 bill cycle than the 2011 billing cycle. Weather data showed that highs were as reported bythe media as some of the hotties on record for the state wide data but the temps for the Chralston area were not overly high on the daily average. SCE&G provided consumer usage and e-WNA information; showingthat consumer has a net E-WNA program credit of 73.28 and on the bill dated 7/17/12 the consumer received an e-WNA credit of 3.26.

ORS informed consumer of PSC and how to file letter of protest and how to perticipate in the PSC hearing process.

[REDACTED]

[REDACTED]

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Case							
Year	Nbr	Industry	Date Recv	Date Closed	How Recv	Call Type	Note
2012	1477	Electric	7/30/2012	7/30/2012	Internet	Inquiry	No
Pfx	Contact's First Name	Contact's Last Name	MI Recv By	Asgn To			
			BWK	WCC			

Consumer Issue

Issue: The SCE&G Weather Normalization Adjustment (WNA) in my opinion does not smooth seasonal costs. My July 2012 electric portion of the bill increased 14.56% over the prior year while my KWH usage decreased 3.2%. Cost per KWH increased 18.43%. The average temperature was 82 for Jul 12 compared to 84 for Jul 11.

Electric Cost  
Jul 11 KWh 1830  
Jul 12 KWh 1771

Jul 11 with WNA \$204.62  
Jul 11 without WNA \$237.68

Jul 12 with WNA \$234.41  
Jul 12 without WNA \$240.94

Results Sought: Consumers should have the option to decline or opt out of the Weather Normalization Adjustment (WNA). It is not my responsibility to smooth income and earnings for SCE&G. It also makes my bill even more unpredictable. My usage went down 3.2% while cost increased 14.56% which includes rate increases, WNA etc. WNA only clouds the true cost.

Investigative Findings

advised customer via e-mail that the e-WNA is a pilot program that was implemented in August 2010. The e-WNA was approved by the S.C. Public Service Commission by Order No. 2010-471-E issued in Docket Number 2009-489-E. The e-WNA was designed to help stabilize rates for customers and stabilize earnings for the Company. When summer weather is hotter than normal or winter weather is colder than normal, the e-WNA is designed to level the effect of abnormal weather on customer bills while also allowing the company to recover necessary operating costs. Through May 31, 2012, customer's bills have been reduced by

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approximately \$60.9 million due to the implementation of e-WNA.

advised that currently, the e-WNA component is not an optional program.

I have reviewed the e-WNA figures for customer account and advised in response e-mail that on the billing history, (which i attached in email) under "WNA Amount", the figures in red parenthesis is a credit, otherwise the e-WNA figure is a debit. Since the implementation of e-WNA, customer has had an overall net credit of \$97.33. In July 2011, customer had a \$28.42 e-wna credit, and in July 2012, there was a \$1.89 e-wna debit.



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Case							
Year	Nbr	Industry	Date Recv	Date Closed	How Recv	Call Type	Note
2012	1411	Electric	7/13/2012	7/13/2012	Internet	Complaint	
Pfx	Contact's First Name	Contact's Last Name	MI Recv By	Asgn To			
			WCC	TDA			

Consumer Issue

Issue: My complaint is in relation to the WNA and the insanely high electric bill it is producing. I do not believe that the avg temp in my area over the period 6/6/2012 to 7/6/2012 was ""above average"". Where do we see these ""average temperatures"" that they are using?

I used 8.4% less power this period but my bill increased by 11.6%! That is crazy! What are you people doing in Columbia? Apparently whatever is good for the power companies.

Results Sought: Please charge people for what they use and quit kowtowing to the whims of the power companies constant request for rate increases. It is completely out of hand.

July of 2006 my bill was \$447 and now my bill is \$614. Where will we be in the next 5-6 years?

Investigative Findings

Sent info to Marsha.

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Case							
Year	Nbr	Industry	Date Recv	Date Closed	How Recv	Call Type	Note
2012	1323	Electric	7/9/2012	7/9/2012	telephone call	Inquiry	No
Pfx	Contact's First Name	Contact's Last Name	MI Recv By		Asgn To		
			bwk		bwk		

**Consumer Issue**

did not request any further contact or information from SCE&G. He says he would prefer not to be required to participate in the eWNA pilot program and feels that consumers should have been given the option to opt out of eWNA. He states he would prefer to pay for energy on a fixed rate as he has since the 40ths and not on a fluctuating rate based on the weather.

**Investigative Findings**

Discussed eWNA, the idea behind it, how it works, what has been experienced, and ....  
Consumer thanked for the discussion and for listening to his thoughts.

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**Issue/Findings**

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**Case**

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Year	Nbr	Industry	Date Recv	Date Closed	How Recv	Call Type	Note
2012	1309	Electric	7/5/2012	7/11/2012	telephone call	Complaint	No

Pfx	Contact's First Name	Contact's Last Name	MI Recv By	Asgn To
			bwk	bwk

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**Consumer Issue**

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issue is with SCE&G, PSC, and ORS regarding WNA. States that consumers should have been give information about WNA prior to it going before PSC and PSC should not have insated a programe that would allow company to make such dramatic changes in rate month to month. States that WNA is not a program desined to aid the consumers and is difficult for average consumer to understand and track. Says eWNA has cuased a 35% increase in this months utility rate.

Also has issue with fluctuation in base rates changing.

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**Investigative Findings**

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foundthat base rate was increased by .40 and this took effect with the June 2012 bill.

Explained and discussed eWNA.

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Case							
Year	Nbr	Industry	Date Recv	Date Closed	How Recv	Call Type	Note
2012	1257	Electric	6/27/2012	6/28/2012	email	Complaint	No
Pfx	Contact's First Name	Contact's Last Name	MI Recv By		Asgn To		
			WCC		WCC		

Consumer Issue

Sent: Monday, June 25, 2012 9:47 PM  
To: Contact  
Subject: PSC Website Comments:

To whom it may concern,

I just received my power bill and after talking to my local SCG&E rep I want to contact your office to share my issues with what is apparently called a "Weather Normalization Adjustment". I understand the concept of the adjustment. In theory you keep costs from skyrocketing on hot or cold months. In reality what you do is open a door for people to get penalized. I do not understand why you would open such a possibility to exist.

Two major points.

1. If I use a lot of power on a colder than average month I get hit big as happened with my July bill which I just received. If you use little power on a hotter than average month you are penalized by not getting the same advantage of the lower rates. You are in effect promoting high energy use in the months in which it is most critical to conserve energy.

2. When it is 105 degrees out 80 degree's feels like its winter (a little exaggeration but you get my point). When it is 85 degree's out 80 degree's doesn't feel that cool so you have to turn your ac down lower. What I am trying to say is that someone with good control over their AC usage is able to continue to save money even in hot months by properly adjusting the ac unit. Your establishment of the Weather Normalization Adjustment takes this capability away from us.

What do I have to do to get this Weather Normalization Adjustment removed from my power bill? What power utility records are available for me to use to back up my case? (e.g Charleston Power Usage, Total Consumer Costs, SCG&E Profit Margins month by month over a period of time etc.). Is there any other movement to get this removed? I appreciate any information you can provide. Thank you.

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**Investigative Findings**

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advised via e-mail to customer that the WNA is a pilot program that was implemented in August 2010. The WNA mechanism was designed to help stabilize rates for customers and stabilize earnings for the Company. When summer weather is hotter than normal or winter weather is colder than normal, the WNA is designed to level the effect of abnormal weather on customer bills while also allowing the company to recover necessary operating costs. Through April 30, 2012, customer's bills have been reduced by approximately \$59.3 million due to the implementation of WNA.

attached via e-mail account billing history for customer records. Since the implementation of WNA, customer has had an overall credit of \$138.26. In June 2011, customer had a \$52.36 WNA credit, and in June 2012, there was a \$42.91 WNA debit.

advised customer he could file at PSC

also attached in the e-mail, the Monthly WNA Report that SCE&G filed in June

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Case							
Year	Nbr	Industry	Date Recv	Date Closed	How Recv	Call Type	Note
2012	451	Electric	3/1/2012	3/1/2012	telephone call	Complaint	No
Pfx	Contact's First Name	Contact's Last Name	MI Recv By		Asgn To		
			bwk		bwk		

Consumer Issue

consumer has question about rates and WNA.

Investigative Findings

Provided information on EWNA and rates. Provided consumer copy of usage history and EWNA credit and debit spread sheet that was received from SCE&G. Consumer thanked for information but does not feel that EWNA is a benefit to consumers as much as it the company in that company is now able to count on full return of its investment and consumers are not able to reduce energy consumption to lower cost of bill received and those lower the company revenue. ORS Staff explained that EWNA does not normalize his usage and that if he was to use more power during any given month bill would be greater and all efforts he makes to lower usage will lower monthly bill amount. Consumer understands that, but that in looking at his bill he does not feel that.



Issue/Findings

Investigative Findings

i have explained ewna to the customer, as well as sent him a follow-up e-mail

customer has both electric and gas but the electric wna, is the factor in his bill being higher this year than same time last year, though he used less KWH

\*\*\* Customer has an overall ewna credit of \$160.34 since the inception of the program\* for Jan 2012, customer had a wna debit of 32.76, whereas last year, Jan 2011 there was a wna credit of 38.43

customer thanked me for my time and response to him



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**Issue/Findings**

\_\_\_\_\_ **Case** \_\_\_\_\_

<b>Year</b>	<b>Nbr</b>	<b>Industry</b>	<b>Date Recv</b>	<b>Date Closed</b>	<b>How Recv</b>	<b>Call Type</b>	<b>Note</b>
2012	309	Electric	2/10/2012	2/13/2012	telephone call	Complaint	No

<b>Pfx</b>	<b>Contact's First Name</b>	<b>Contact's Last Name</b>	<b>MI Recv By</b>	<b>Asgn To</b>
	██████	██████	bwk	bwk

\_\_\_\_\_ **Consumer Issue** \_\_\_\_\_

Issue is EWNA. States she can not afford the spike in electric bill in a time when bills should be lower based on mid outside temperatures. Say that she is having to keep home colder this winter than she did last year as it is costing far more to heat home less. Says she does not like the fact that weather is controlling the rate and while she may be able to understand that weather affects usage. She can not undersatand being charged more for less usage that weather is allowing.

\_\_\_\_\_ **Investigative Findings** \_\_\_\_\_

Discussed EWNA. Informed her of the idea behind the EWNA program. Consumer does not agree with weather determining the rates and that consumers cannot account for what the rate will be and adjust usage to offset rate as rate is not known until bill is received. Discussed her view of program and that she does not like EWNA. State that while she may be ahead of company by 33.25 she still feels that they will end up getting the better of her throught the use of the EWNA.

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Case

Year	Nbr	Industry	Date Recv	Date Closed	How Recv	Call Type	Note
2012	195	Electric	1/26/2012	2/6/2012	email	Complaint	No

Pfx	Contact's First Name	Contact's Last Name	MI Recv By	Asgn To
Mr			WCC	WCC

Consumer Issue

From:   
Sent: Wednesday, January 25, 2012 6:16 PM  
To: Contact  
Subject: PSC Website Comments:

How can you possibly let Scana Energy get away with the rates they charge and their use of the WNA (weather normalization adjustment)?

The more electricity usage there is due to cold weather the cost per Kw hour goes down and with less usage due to warm weather, the cost per Kw hour goes up. So Scana gets paid regardless of the weather. Usage was down last month 36% but Scana bill was only 11% less even though they produced less electricity. What a deal for them at the detriment of the consumer.

And you allowed this to happen. You should be ashamed of yourself. Just who are you protecting??? Certainly not the consumer. That only leaves one other party. You are not doing your job.

Investigative Findings

the reason why bill is higher this year than same time last year though the usage is less is two-fold - primarily the E-WNA factor and a 4.79% increase in rates

main reason is the WNA

customer has an overall credit since the inception WNA of \$183.57-- customer had a WNA credit same period last year of \$56.25, and a debit this year of \$37.83  
explained WNA to the customer -- customer understood, but just does not like the Program\*\*\*

customer informed of his rights to escalate his complaint to PSC if he desires\*\*

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Case							
Year	Nbr	Industry	Date Recv	Date Closed	How Recv	Call Type	Note
2012	135	Electric	1/20/2012	1/24/2012	email	Complaint	No
Pfx	Contact's First Name	Contact's Last Name	MI Recv By		Asgn To		
Mr			E WCC		WCC		

Consumer Issue

April said to fwd this complaint to you.

From: Easterling, Deborah [mailto:Deborah.Easterling@psc.sc.gov]  
Sent: Thursday, January 19, 2012 4:02 PM  
To: [REDACTED]  
Cc: Sharpe, April; Ross, Jessica  
Subject: RE: PSC Website Comments:

Dear Mr. [REDACTED]

This is to acknowledge receipt of your email to our PSC Website Comments.

In March 2004 the General Assembly enacted legislation which created the Office of Regulatory Staff. As a result of that legislation, effective January of 2005 the Public Service Commission took on an exclusively quasi-judicial role. All resources for the investigation and resolution of consumer inquiries and complaints were assigned to the Office of Regulatory Staff.

In an attempt to informally resolve the complaint, I am forwarding your email to that Agency's Consumer Services Department for handling.

If attempts to resolve the complaint are unsuccessful and you wish to file a formal complaint with the Commission, the PSC Complaint Form can be found on the Commission's webpage at [www.psc.sc.gov/forms.asp](http://www.psc.sc.gov/forms.asp).

Please let me know if you should require any additional information.

Sincerely,  
Deborah Easterling

From: [REDACTED]  
Sent: Saturday, January 14, 2012 1:40 PM  
To: Contact  
Cc: [REDACTED]  
Subject: PSC Website Comments:

Dear Sir or Madam:

I have just been on the line with SCE+G's customer service about WHY my January 2012 electricity bill is so much higher than January 2011 FOR 18.4% LESS kwh consumed. This is surely MUCH larger than any rate increase that SCE+G has been granted! And the only explanation the clerk could give is that they are allowed their WNA (a weather adjustment) -- which does still does NOT seem logical (or perhaps even legal within their rate allowances.

I just received my bill yesterday evening (Friday, Jan. 13, 2012) and have already written the check for my billing of \$433.70 on my account [REDACTED], although they will not receive that by mail until Tuesday or Wednesday (Jan. 17 or 18) because of the weekend. So there is no question on my part of holding up payment under protest.

But I do wish to know from regulatory officials whether or not they are billing correctly both under the law and under intentions of the law. They have been allowed a rate increase; and I do not object to that (although I perhaps would not have voted for as much as they were granted). I simply do not think the "math" adds up to anything like an "appropriate increase." So, although you are welcome to look up my account, I provide you below the situation.

January 2011 Billing for this same account was:  
\$389.38 for 31 days using 3995 kWh. = An overall average cost per kWh of \$0.0974668  
(cents per kWh used.

January 2012 Billing for the account is:  
\$433.70 for 33 days using 3260 kWh. = An overall average cost per kWh of \$0.1330368+  
per kWh used.

The overall AVERAGE COST per kWh increased from \$0.0974668 to \$0.1330368 -- or an average kWh cost increase of 36.5%.

I realize you (and they) cannot calculate in this manner because of the division of charges into (This Month) the "Basic Facilities Charge" of \$8.50, the first 800 kWh charge of \$107.27, and the "next 2460 kWh) charge of \$317.93. However, (1) THIS is how it has overall impact on a home owner; and (2) probably the increment is worse for the 2460 kWh overall anyway!

I want to know whether (a) they have "injected their decimals" into an improper formula to come up with this kind of exorbitant increase of utility rate. And (b) if they HAVE used an appropriately authorized formulation, is this kind of increase what the Public Utilities Commission has intended to authorize???

Sincerely,

[REDACTED]

Investigative Findings

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EWNA is the reason for his bills being higher as is evidenced by the numbers below...  
Service Thru EWNA Amount

1-11-12 + 41.66

12-9-11 + 24.80

11-9-11 - 4.32

10-12-11 - 2.85

9-13-11 - 17.29

8-11-11 - 55.24

7-12-11 - 45.10

6-13-11 - 37.36

5-11-11 + 5.31

4-11-11 + 4.08

3-14-11 + 26.78

2-10-11 - 50.03

Credit amt of \$109.56 (most recent 12 months)

1-11-11 - 65.04

Credit amt of \$174.60 if January 2011 included (13th month)

explained E-WNA to the customer and he seemed to understand -- just did not like the program -- i also explained that the program is still a pilot program\* customer was satisfied with my explanation to him about why his bill is higher this year than same time last year, though he used less KWH


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**Issue/Findings**

Case							
Year	Nbr	Industry	Date Recv	Date Closed	How Recv	Call Type	Note
2012	162	Electric	1/23/2012	1/30/2012	email	Complaint	No
Pfx	Contact's First Name	Contact's Last Name	MI Recv By	Asgn To			
Ms			WCC	WCC			

**Consumer Issue**

From:   
Sent: Saturday, January 21, 2012 4:05 PM  
To: Chairman.Howard  
Subject: SCE&G bill

Chairman Howard -

I live in  SC, and have just received my January 2012 utility bill from SCE&G. Knowing that this past month was seasonably warmer than last January, I was expecting a much lower utility bill. I was unpleasantly surprised. My electric usage for this billing cycle was, in fact, only slightly more than half of what it was last year at this time. However, the RATE at which I am charged for electricity has increased by 41% over last year's! I understand that your commission is responsible for approving any and all rate increases for utilities throughout the State, and I have been somewhat cognizant of the many requests for increases by SCE&G over the past 4 years I have lived in  but I had no idea that I would be paying 41% more for electricity this year. This is outrageous!

Obviously, the members of your commission would never knowingly allow a 40+% rate hike to be imposed on the good citizens of District 1 within the course of a year. I am asking that a docket be added to the upcoming council meeting to address this outrage, to secure a comment from SCE&G management explaining this increase, and to provide remedy for this obvious oversight.

Please let me know you intentions with respect to this matter.

Regards,



**Investigative Findings**



Issue/Findings

the reason why bill is higher this year than same time last year though the usage is less is two-fold - primarily the E-WNA factor and a 4.79% increase in rates

main reason is the WNA

customer has an overall credit for the year of \$129.42-- customer had a WNA credit same period last year of \$49.71, and a debit this year of \$27.33

explained WNA to the customer -- customer understood, but just does not like the Program\*\*\*

customer informed of his rights to escalate his complaint to PSC if he desires\*\*

customer was very appreciative of my call back to him and explanation

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Case							
Year	Nbr	Industry	Date Recv	Date Closed	How Recv	Call Type	Note
2012	79	Electric	1/12/2012	1/17/2012	email	Complaint	No
Pfx	Contact's First Name	Contact's Last Name	MI Recv By		Asgn To		
Mr			WCC		WCC		

Consumer Issue

(forwarded to ORS from PSC)\*

From:   
Sent: Wednesday, January 11, 2012 12:13 PM  
To: Nelson, Carolyn  
Cc:   
Subject: SCEG WNA Program

Subject: Rising Electricity Cost

I received my latest monthly electric bill a few days ago. To say I was shocked would be an understatement. I used 28% less electricity this December than I did last December . My bill was actually higher this year! We had a 28% increase in one year. How can this be?

I called and learned that in addition to planned annual increases, a formula is now in place called WNA. This Weather Normalization Algorithm allows the company to add an additional rate increase to make up for electricity NOT used in mild weather! We can no longer look forward to mild weather as a means to save on our energy bill . It has been taken out of our hands. It was explained by a representative as a means to smooth out their revenue stream. This formula is supposed to give the consumer a break when the weather is really cold. I learned that there is no part of the formula that guarantees that the debits and credits even out over time. A long term mild weather trend would result in perhaps years of over charges

When I look at the way my bill is rising every year , I see no way that this is sustainable. I think the public needs to have control of their bill back in their hands. We try to do everything we can to save electricity and this is what we get in return. It is very discouraging.



Issue/Findings

Page 2 of 2

Wage and salary earners cannot adjust THEIR pay rates to fit the increases that keep coming. Lets keep it simple. Capitalism should be a system that charges for energy actually used. This WNA thing sounds like socialism.

---

**Investigative Findings**

---

I have reviewed customer billing history provided to me by SCE&G... the reason customer bill is higher this year than last, though he used less KWH is two-fold -- there has been a total of 4.79% in rate increase since same period last year, according to info given to me by Electric Dept/Cartin, but more importantly the big factor is the E-WNA..

**E-WNA Data for :**

**Service Through**

January 5, 2012 Debit amount of \$40.19  
December 5, 2011 Debit amount of \$ 8.25  
November 3, 2011 Debit amount of \$ .28  
October 6, 2011 Credit amount of \$ 4.73  
September 7, 2011 Credit amount of \$19.44  
August 5, 2011 Credit amount of \$33.53  
July 6, 2011 Credit amount of \$32.99  
June 7, 2011 Credit amount of \$18.48  
May 5, 2011 Debit amount of \$ 1.14  
April 5, 2011 Debit amount of \$ 7.55  
March 8, 2011 Debit amount of \$14.49  
February 4, 2011 Credit amount of \$33.33  
January 5, 2011 Credit amount of \$48.7

the net amount of the 13 months to Mr. Hardee's bills is a credit of \$119.37....if you only review the last 12 months of usage and exclude the January 5, 2011 amount, the total net of EWNA is a credit of \$70.60...

explained the E-WNA program to the customer -- he understood, but he still does not agree with it\*

i also explained his debits/credits for the last 13 months

explained that this is still a pilot program and will be reviewed in the future\*

i gave customer my direct line in case in may want to call me in the future...

though customer is in disagreement with E-WNA, he was very much appreciative of my call\*

I also let customer know of his rights to file at the PSC

Issue/Findings

Page 1 of 1

**Issue/Findings**

Case							
Year	Nbr	Industry	Date Recv	Date Closed	How Recv	Call Type	Note
2012	71	Electric	1/11/2012	1/30/2012	WATS	Complaint	No
Pfx	Contact's First Name	Contact's Last Name	MI Recv By	Asgn To			
Mr			SR	SR			

**Consumer Issue**

First of all, I appreciate the time you spent listening to me on my issue with my electric bill on the phone. I was upset because we had changed all our light bulbs to CFL's to save electricity and also turned down the thermostat to 65 degrees which was 3 degrees less than last year. I signed up for the SCE&G home audit and have been trying to reduce consumption and my bill which they have been promoting. Just two months ago I contacted them about changing my electric hot water heaters to a tankless system with their price tag of \$3600 of which I am glad I didn't pursue. This last month we cut our consumption by 617 Kwh from last year. We used 1700 approximate Kwh compared to right at 2400 last year. The weather also cooperated with warmer than normal temperatures which I thought would result in a lower bill. There was a short week of cold weather in which our family suffered with a little colder than normal inside temperatures to try and save money. When I received the bill in the mail my bill actually was \$233 this year versus \$230 last year. I was so upset and called to find out what had happened with my bill. Upon calling SCE&G and speaking with a supervisor named Thelma she stated that the regulatory agency had approved for a plan which basically worked like budget billing to all customers. I explained I can't believe this when you are promoting saving electricity and because my house is less than 5 years old and I have sacrificed my family to suffer only to find my bill increased. What incentives does this plan do for people to spend money to save electricity? I did not sign up for the plan nor do I want this plan. I can't believe that we have no rights. It is bad enough that we don't have a choice in our provider. This plan only benefits the electric company to ensure a steady stream of income. I feel this is criminal. They keep promoting saving electricity so they can save adding more infasture to their expenses to be able to keep up with electric consumption. I would appreciate any help you could provide in this matter.

**Investigative Findings**

Sent to company to get a copy of the customer's history on eWNA. From January 2011 through January 2012, customer has a credit balance from eWNA of \$142.57.

Customer was still not happy with program but appreciated the information.

Issue/Findings

Page 1 of 1

**Issue/Findings**

<u>Case</u>							
Year	Nbr	Industry	Date Recv	Date Closed	How Recv	Call Type	Note
2012	40	Electric	1/6/2012	1/6/2012	telephone call	Complaint	No
Pfx	Contact's First Name	Contact's Last Name	MI Recv By	Asgn To			
			bwk	bwk			

Consumer Issue

issue is increase of 40% in rate from last year in Decemer to this December. Says company informed of EWNA and that it was reason for increase. Wants more infromation on EWNA and to have complaint on file about rate being charged.

States that December 2010 he used 1942 Kwh at cost of 195.52 and December 2011 he used 1832 Kwh at cost of 260.58.

Investigative Findings

ORS informed of WNA pilot program and how it works and what thought behind it is. informed of how to date most months have gotten EWNA credit but that this month due to very mild weather trend EWNA has resulted in high debit. Informed that last year he got credited 31.70 while this year it was a debit of 34.84. Consumer thanked for information but is not pleased with rate being unstable and cost of electric being unable to perdict each month.

Issue/Findings

Page 1 of 1

Issue/Findings

Case

Year	Nbr	Industry	Date Recv	Date Closed	How Recv	Call Type	Note
2011	1093	Electric	5/17/2011	5/17/2011	WATS	Complaint	No

Pfx	Contact's First Name	Contact's Last Name	MI Recv By	Asgn To
Mrs			WCC	WCC

Consumer Issue

customer wants a complaint on file about E-WNA -- not a good program  
unfair practice  
does not promote conservation of electricity

Investigative Findings

i explained to customer what the E-WNA program was  
advised that it had been approved by the PSC

customer just does not like the program  
advised her i would file complaint in her name  
Brad also came in on the call to assist in explanation  
customer still not satisfied with the program\*  
customer wanted a PSC complaint form mailed to her\*sent response letter w/ complaint form\*  
of note- after reveiwing customers EWNA amounts for the period it has been in effect,  
customer has a \$35.10 credit all together

Issue/Findings

Page 1 of 1

**Issue/Findings**

Case							
Year	Nbr	Industry	Date Recv	Date Closed	How Recv	Call Type	Note
2010	2449	Electric	8/31/2010	9/3/2010	Internet	Complaint	No
Pfx	Contact's First Name	Contact's Last Name	MI Recv By	Asgn To			
Ms			L SR	SR			

**Consumer Issue**

Issue: I am really upset that you allowed the new electric weather normalization adjustment be introduced by SCE&G starting in August. I know some people had really high bills and for those people if they want this new plan is ok for them. But I only want to pay for the electric & gas that I personally use for that month. I count on the low months to help me out with other things my home needs. I am appalled that we don't have a choice in this matter. It seems to me that each of us should be able to choose whether or not we want this plan or not. I thought we lived in a freedom of choice country and it is turning out that we don't, and our choices are being made for us even if we don't want it or not.

Thanks for nothing

Results Sought: I would like the option of being able to say weather or not I want this eWNA or not. Don't just tell me it is not optional. We the people should have the option to choose it or not. And I don't want it, I just want to pay each month what I use.

**Investigative Findings**

Sent consumer form letter regarding eWNA.

Customer eWNA Example With and Without Limit on Increases  
Illustration of Limitation on Increases  
Limit Monthly eWNA Increase to 5% of Bill without eWNA

Line No.	Month (A)	Bill (with eWNA?) (B)	kWh (C)	eWNA Limit on Increase (D)	Bill without eWNA? (E)	Limit on eWNA Increase (F)	Smaller of eWNA or Limit (G)	Deferral due to eWNA Limit (H)	Application of Deferral (I)	Cumulative Deferral (J)	eWNA to Apply on Bill (K)	Total Bill with Limited eWNA (L)
1	2010-08	\$ 246.01	2,240	\$ (24.64)	\$ 270.65	\$ 13.53	\$ (24.64)	\$ -		\$ -	\$ (24.64)	\$ 246.01
2	2010-09	\$ 222.31	1,972	\$ (16.41)	\$ 238.72	\$ 11.94	\$ (16.41)	\$ -		\$ -	\$ (16.41)	\$ 222.31
3	2010-10	\$ 167.60	1,510	\$ (4.97)	\$ 172.57	\$ 8.63	\$ (4.97)	\$ -		\$ -	\$ (4.97)	\$ 167.60
4	2010-11	\$ 165.11	1,418	\$ (1.96)	\$ 167.07	\$ 8.35	\$ (1.96)	\$ -		\$ -	\$ (1.96)	\$ 165.11
5	2010-12	\$ 229.86	2,191	\$ (19.37)	\$ 249.23	\$ 12.46	\$ (19.37)	\$ -		\$ -	\$ (19.37)	\$ 229.86
6	2011-01	\$ 275.46	2,821	\$ (40.74)	\$ 316.20	\$ 15.81	\$ (40.74)	\$ -		\$ -	\$ (40.74)	\$ 275.46
7	2011-02	\$ 252.33	2,271	\$ (5.40)	\$ 257.73	\$ 12.89	\$ (5.40)	\$ -		\$ -	\$ (5.40)	\$ 252.33
8	2011-03	\$ 189.50	1,410	\$ 23.28	\$ 166.22	\$ 8.31	\$ 8.31	\$ 14.97		\$ 14.97	\$ 8.31	\$ 174.53
9	2011-04	\$ 162.53	1,354	\$ 2.26	\$ 160.27	\$ 8.01	\$ 2.26	\$ -	\$ 5.75	\$ 9.22	\$ 8.01	\$ 168.28
10	2011-05	\$ 181.12	1,551	\$ (0.84)	\$ 181.96	\$ 9.10	\$ (0.84)	\$ -	\$ 9.10	\$ 0.12	\$ 8.26	\$ 190.22
11	2011-06	\$ 220.94	2,003	\$ (28.74)	\$ 249.68	\$ 12.48	\$ (28.74)	\$ -	\$ 0.12	\$ -	\$ (28.62)	\$ 221.06
12	2011-07	\$ 305.04	2,754	\$ (36.90)	\$ 341.94	\$ 17.10	\$ (36.90)	\$ -		\$ -	\$ (36.90)	\$ 305.04
13	2011-08	\$ 269.30	2,378	\$ (31.29)	\$ 300.59	\$ 15.03	\$ (31.29)	\$ -		\$ -	\$ (31.29)	\$ 269.30
14	2011-09	\$ 273.57	2,209	\$ (5.92)	\$ 279.49	\$ 13.97	\$ (5.92)	\$ -		\$ -	\$ (5.92)	\$ 273.57
15	2011-10	\$ 154.14	1,275	\$ (1.17)	\$ 155.31	\$ 7.77	\$ (1.17)	\$ -		\$ -	\$ (1.17)	\$ 154.14
16	2011-11	\$ 155.83	1,277	\$ (3.40)	\$ 159.23	\$ 7.96	\$ (3.40)	\$ -		\$ -	\$ (3.40)	\$ 155.83
17	2011-12	\$ 219.37	1,670	\$ 16.20	\$ 203.17	\$ 10.16	\$ 10.16	\$ 6.04		\$ 6.04	\$ 10.16	\$ 213.33
18	2012-01	\$ 289.94	2,146	\$ 33.56	\$ 256.38	\$ 12.82	\$ 12.82	\$ 20.74		\$ 26.78	\$ 12.82	\$ 269.20
19	2012-02	\$ 256.02	1,890	\$ 28.26	\$ 227.76	\$ 11.39	\$ 11.39	\$ 16.87		\$ 43.65	\$ 11.39	\$ 239.15
20	2012-03	\$ 248.00	1,786	\$ 31.86	\$ 216.14	\$ 10.81	\$ 10.81	\$ 21.05		\$ 64.71	\$ 10.81	\$ 226.95
21		\$4,483.98		\$ (86.33)	\$4,570.31			\$ 79.68	\$ 14.97	\$ 64.71	\$ (151.04)	\$4,419.27
22	Total eWNA Effect			\$ (86.33)					Cumulative Deferral	\$ 64.71	\$ 64.71	\$ 64.71
									Net Impact with Deferral	\$	\$ (86.33)	\$4,483.98

Source: SCE&G Electric WNA Update Presentation before the Public Service Commission of South Carolina, May 2, 2012, page 9

Customer eWNA Example With and Without Limit on Increases  
Illustration of Limitation on Increases  
Limit Monthly eWNA Increase to 7.5% of Bill without eWNA

Line No.	Month (A)	Bill (B)	kWh (C)	eWNA Without Limit on Increase (D)	Bill without eWNA? (E)	Limit on eWNA Increase (F)	Smaller of eWNA or Limit (G)	Deferral due to eWNA Limit (H)	Application of Deferral (I)	Cumulative Deferral (J)	eWNA to Apply on Bill (K)	Total Bill with Limited eWNA (L)
1	2010-08	\$ 246.01	2,240	\$ (24.64)	\$ 270.65	\$ 20.30	\$ (24.64)	\$ -		\$ -	\$ (24.64)	\$ 246.01
2	2010-09	\$ 222.31	1,972	\$ (16.41)	\$ 238.72	\$ 17.90	\$ (16.41)	\$ -		\$ -	\$ (16.41)	\$ 222.31
3	2010-10	\$ 167.60	1,510	\$ (4.97)	\$ 172.57	\$ 12.94	\$ (4.97)	\$ -		\$ -	\$ (4.97)	\$ 167.60
4	2010-11	\$ 165.11	1,418	\$ (1.96)	\$ 167.07	\$ 12.53	\$ (1.96)	\$ -		\$ -	\$ (1.96)	\$ 165.11
5	2010-12	\$ 229.86	2,191	\$ (19.37)	\$ 249.23	\$ 18.69	\$ (19.37)	\$ -		\$ -	\$ (19.37)	\$ 229.86
6	2011-01	\$ 275.46	2,821	\$ (40.74)	\$ 316.20	\$ 23.72	\$ (40.74)	\$ -		\$ -	\$ (40.74)	\$ 275.46
7	2011-02	\$ 252.33	2,271	\$ (5.40)	\$ 257.73	\$ 19.33	\$ (5.40)	\$ -		\$ -	\$ (5.40)	\$ 252.33
8	2011-03	\$ 189.50	1,410	\$ 23.28	\$ 166.22	\$ 12.47	\$ 12.47	\$ 10.81		\$ 10.81	\$ 12.47	\$ 178.69
9	2011-04	\$ 162.53	1,354	\$ 2.26	\$ 160.27	\$ 12.02	\$ 2.26	\$ -	\$ 10.81	\$ -	\$ 13.07	\$ 173.34
10	2011-05	\$ 181.12	1,551	\$ (0.84)	\$ 181.96	\$ 13.65	\$ (0.84)	\$ -		\$ -	\$ (0.84)	\$ 181.12
11	2011-06	\$ 220.94	2,003	\$ (28.74)	\$ 249.68	\$ 18.73	\$ (28.74)	\$ -		\$ -	\$ (28.74)	\$ 220.94
12	2011-07	\$ 305.04	2,754	\$ (36.90)	\$ 341.94	\$ 25.65	\$ (36.90)	\$ -		\$ -	\$ (36.90)	\$ 305.04
13	2011-08	\$ 269.30	2,378	\$ (31.29)	\$ 300.59	\$ 22.54	\$ (31.29)	\$ -		\$ -	\$ (31.29)	\$ 269.30
14	2011-09	\$ 273.57	2,209	\$ (5.92)	\$ 279.49	\$ 20.96	\$ (5.92)	\$ -		\$ -	\$ (5.92)	\$ 273.57
15	2011-10	\$ 154.14	1,275	\$ (1.17)	\$ 155.31	\$ 11.65	\$ (1.17)	\$ -		\$ -	\$ (1.17)	\$ 154.14
16	2011-11	\$ 155.83	1,277	\$ (3.40)	\$ 159.23	\$ 11.94	\$ (3.40)	\$ -		\$ -	\$ (3.40)	\$ 155.83
17	2011-12	\$ 219.37	1,670	\$ 16.20	\$ 203.17	\$ 15.24	\$ 15.24	\$ 0.96		\$ 0.96	\$ 15.24	\$ 218.41
18	2012-01	\$ 289.94	2,146	\$ 33.56	\$ 256.38	\$ 19.23	\$ 19.23	\$ 14.33		\$ 15.29	\$ 19.23	\$ 275.61
19	2012-02	\$ 256.02	1,890	\$ 28.26	\$ 227.76	\$ 17.08	\$ 17.08	\$ 11.18		\$ 26.47	\$ 17.08	\$ 244.84
20	2012-03	\$ 248.00	1,786	\$ 31.86	\$ 216.14	\$ 16.21	\$ 16.21	\$ 15.65		\$ 42.12	\$ 16.21	\$ 232.35
21		\$4,483.98		\$ (86.33)	\$4,570.31			\$ 52.93	\$ 10.81	\$ 42.12	\$ (128.45)	\$ 4,441.86
22	Total eWNA Effect			\$ (86.33)						Cumulative Deferral	\$ 42.12	\$ 42.12
										Net Impact with Deferral	\$ (86.33)	\$ 4,483.98

Source: SCE&G Electric WNA Update Presentation before the Public Service Commission of South Carolina, May 2, 2012, page 9

**South Carolina Electric & Gas Company**

**Docket No. 2012-218-E**

**Exhibit \_\_ (RCS-4)**

**AARP Accounting Schedules**

**Accompanying the Direct Testimony of Ralph Smith**

Schedule	Description	Pages
Schedule 1	Storm Damage Reserve	1
Schedule 2	Transmission & Distribution Insurance Premium	1
Schedule 3	Section 199 Deduction Impact on Current Federal Income Tax Expense	1
	Total Pages	4



SOUTH CAROLINA ELECTRIC & GAS COMPANY  
Test Year Ending December 31, 2011

Docket No. 2012-218-E  
Exhibit (RCS-4)  
Schedule 1  
Page 1 of 1

Storm Damage Reserve  
(Thousands of Dollars)

Line No.	Description	Pro Forma Adjustment Per Company (A)	Pro Forma Adjustment Per AARP (B)	Net Adjustment Per AARP (C)
1	Total Electric O&M Expense	\$ 6,054	\$ -	\$ (6,054)
2	Retail Electric Allocation	100.00%	100.00%	100.00%
3	Retail Electric O&M Expense	\$ 6,054	\$ -	\$ (6,054)

Notes and Source:

This adjustment is to reverse Company's pro forma adjustment to increase Storm Damage Reserve

Line 1, Col.A: SCE&G Exhibit C-2, page 4 of 4, Adjustment #27, O&M Expenses

Line 2: Estimated Retail Jurisdictional Allocation, Based on Retail Portion of Storm Damage Reserve

Component	Reference	Company Adjusted Total Electric (D)	Company Adjusted Retail Electric (E)	Retail Electric Portion (F)
4	Storm Damage Reserve	\$ (19,690)	\$ (19,690)	100.00%

## SOUTH CAROLINA ELECTRIC &amp; GAS COMPANY

Test Year Ending December 31, 2011

Docket No. 2012-218-E

Exhibit (RCS-4)

Schedule 2

Page 1 of 1

Transmission & Distribution Insurance Premium  
(Thousands of Dollars)

Line No.	Description	Pro Forma Adjustment Per Company (A)	Adjustment Per AARP (B)	Net Adjustment Per AARP (C)
1	Total Electric O&M Expense	\$ 3,058	\$ -	\$ (3,058)
2	Estimated Retail Electric Allocation	97.03%	97.03%	97.03%
3	Retail Electric O&M Expense	\$ 2,967	\$ -	\$ (2,967)

## Notes and Source:

This adjustment is to reverse Company's pro forma adjustment to increase current cost of storm damage insurance premiums.

Line 1, Col.A: SCE&G Exhibit C-2, page 4 of 4, Adjustment #28, O&M Expenses

Line 2: Estimated Retail Jurisdictional Allocation, Based on Retail Portion of O&M Expenses Other

Component	Reference	Company Adjusted Total Electric (D)	Company Adjusted Retail Electric (E)	Retail Electric Portion (F)
4 O&M Expenses - Other	SCE&G Ex C-2, pp. 1&2, L4	\$ 543,063	\$ 526,919	97.03%
Compare Jurisdiction Allocation of Net Plant:				
5 Plant in Service	SCE&G Ex C-4, p.1, L7	\$ 8,616,477	\$ 8,375,077	97.20%
6 Accumulated Depreciation	SCE&G Ex C-5, p.1, L7	\$ (3,252,361)	\$ (3,154,676)	97.00%
7 Net Plant		\$ 5,364,116	\$ 5,220,401	97.32%

## SOUTH CAROLINA ELECTRIC &amp; GAS COMPANY

Test Year Ending December 31, 2011

Docket No. 2012-218-E

Exhibit (RCS-4)

Schedule 3

Page 1 of 1

Section 199 Deduction Impact on Current Federal Income Tax Expense  
(Thousands of Dollars)

Line No.	Description	Per Company (A)	Separate Company if Not Limited (B)	Separate SCE&G (Company) Limitation Due To Taxable Income (C)	Consolidated Limitation (D)
1	Manufacturer's Deduction (Section 199 DPAD)	\$ (9,844)	\$ (19,517)	\$ (16,244)	\$ (18,311)
2	Taxable Income Impact	\$ (9,844)	\$ (19,517)	\$ (16,244)	\$ (18,311)
3	Tax Computed at 35%	\$ (3,445)	\$ (6,831)	\$ (5,685)	\$ (6,409)
4	Current Federal Income Tax Expense	\$ (3,445)	\$ (6,831)	\$ (5,685)	\$ (6,409)
5	Adjustment to Current Federal Income Tax for DPAD		\$ (3,386)	\$ (2,240)	\$ (2,963)
6	Estimated Retail Jurisdictional Allocation		95.82%	95.82%	95.82%
7	Retail Electric Jurisdictional Adjustment to Current Federal Income Tax		\$ (3,244)	\$ (2,146)	\$ (2,840)

## Notes and Source:

Col. A, line 1 and 35% FIT rate: data from SCE&amp;G response to ORS 1-80.

Cols. B, C, and D, line 1: data from SCE&amp;G response to AARP 1-76.

Line 6: Estimated Retail Jurisdictional Allocation, Based on Retail Portion of Production

Component	Company Adjusted Total Electric (E)	Company Adjusted Retail Electric (F)	Retail Electric Portion (G)
8 Production Plant	\$ 4,432,060	\$ 4,246,768	95.82%
9 Production CWIP	\$ 70,902	\$ 67,938	95.82%
10 Production Depreciation Reserve	\$ 1,885,808	\$ 1,806,958	95.82%

**South Carolina Electric & Gas**

**Docket No. 2012-218-E**

**Exhibit \_\_ (RCS-5)**

**Copies of SCE&G's Responses to Data Requests  
and Workpapers Referenced in the Direct Testimony and Schedules of**

**Ralph C. Smith**

<b>Data Request</b>	<b>Subject</b>	<b>Confidential</b>	<b>No. of Pages</b>	<b>Page No.</b>
AARP 1-106	SCE&G requested to reinstate the collection of an annual storm damage reserve fund accrual	No	1	2
	Copy of IRS Form 8903 (Rev. 12-2010) with instructions	No	12	3 - 14
ORS 1-80	SCE&G's calculations of its current federal and state income tax expense and reflecting a Manufacturer's Deduction	No	6	15 - 20
	Excerpt of SCE&G's 2011 FERC Form 1 reflecting the Company's Domestic Production Activities Deduction ("DPAD") reflected in its Income Tax Expense amount	No	2	21 - 22
AARP 1-76	SCE&G's calculations for the Section 199, Domestic Production Activities Deduction, that the Company claimed in its 2010 and 2011 income tax returns (with attachment excerpt)	No	2	23 - 24
AARP 1-75	SCE&G claimed less 2011 bonus tax depreciation and obtained a higher DPAD in 2011	No	1	25
AARP 1-80	Bonus Tax Depreciation, participation in a consolidated return and Domestic Production Activities Deduction - Impacts in 2010 and 2011	No	1	26
	<b>Total Pages Including Content Page</b>		<b>26</b>	

**SOUTH CAROLINA ELECTRIC & GAS COMPANY  
AARP FIRST CONTINUING AUDIT REQUEST  
DOCKET NO. 2012-218-E**

**REQUEST NO. 1-106**

Storm damage reserve. Refer to page F-46 of the proxy statement, which states that, pursuant to the SCPSC's July 2010 retail electric rate order, SCE&G suspended collection of the storm damage reserve indefinitely pending future SCPSC action.

- a) What is the balance in the storm reserve as of each of the following dates:
  - 1) 12/31/2010
  - 2) 12/31/2011
  - 3) The most current month-end in 2012 for which accounting information is available.
- b) Are there any balances of Accumulated Deferred Income Taxes related to the storm reserve? If so, please provide the related ADIT amounts as of each of the following dates:
  - 1) 12/31/2010
  - 2) 12/31/2011
  - 3) The most current month-end in 2012 for which accounting information is available.
- c) Has SCE&G included any rate base or operating expense amounts in its application relating to storm damage reserve accruals, or related to amortization of a storm damage reserve balance?
  - 1) If not, explain fully why not.
  - 2) If so, please show all such amounts, by account.

**RESPONSE NO. 1-106**

- a) 12/31/10: \$38,309,649  
12/31/11: \$31,886,911  
8/31/12: \$27,299,661
- b) 12/31/10: \$14,653,500  
12/31/11: \$12,109,200  
8/31/12: \$12,109,200
- c) In its Application, the Company has requested to reinstate collection of storm damage reserve funds and has requested an annual collection level of \$6,054,000 for this purpose. See pro forma adjustment No. 27 on Exhibit C-2 of the Company's filing and the prefiled direct testimony of Company Witness Swan.

The Company includes the storm damage reserve balance as a reduction to rate base.

Form **8903**  
(Rev. December 2010)  
Department of the Treasury  
Internal Revenue Service

## Domestic Production Activities Deduction

► Attach to your tax return. ► See separate instructions.

Attachment  
Sequence No. **143**

Name(s) as shown on return

Identifying number

	(a) Oil-related production activities	(b) All activities
<b>Note.</b> Do not complete column (a), unless you have oil-related production activities. Enter amounts for all activities in column (b), including oil-related production activities.		
1 Domestic production gross receipts (DPGR)	1	
2 Allocable cost of goods sold. If you are using the small business simplified overall method, skip lines 2 and 3	2	
3 Enter deductions and losses allocable to DPGR (see instructions)	3	
4 If you are using the small business simplified overall method, enter the amount of cost of goods sold and other deductions or losses you ratably apportion to DPGR. All others, skip line 4	4	
5 Add lines 2 through 4	5	
6 Subtract line 5 from line 1	6	
7 Qualified production activities income from estates, trusts, and certain partnerships and S corporations (see instructions)	7	
8 Add lines 6 and 7. Estates and trusts, go to line 9, all others, skip line 9 and go to line 10	8	
9 Amount allocated to beneficiaries of the estate or trust (see instructions)	9	
10a Oil-related qualified production activities income. Estates and trusts, subtract line 9, column (a), from line 8, column (a), all others, enter amount from line 8, column (a). If zero or less, enter -0- here	10a	
b Qualified production activities income. Estates and trusts, subtract line 9, column (b), from line 8, column (b), all others, enter amount from line 8, column (b). If zero or less, enter -0- here, skip lines 11 through 21, and enter -0- on line 22	10b	
11 Income limitation (see instructions): <ul style="list-style-type: none"><li>• Individuals, estates, and trusts. Enter your adjusted gross income figured without the domestic production activities deduction</li><li>• All others. Enter your taxable income figured without the domestic production activities deduction (tax-exempt organizations, see instructions)</li></ul>	11	
12 Enter the smaller of line 10b or line 11. If zero or less, enter -0- here, skip lines 13 through 21, and enter -0- on line 22	12	
13 Enter 9% of line 12	13	
14a Enter the smaller of line 10a or line 12	14a	
b Reduction for oil-related qualified production activities income. Multiply line 14a by 3%	14b	
15 Subtract line 14b from line 13	15	
16 Form W-2 wages (see instructions)	16	
17 Form W-2 wages from estates, trusts, and certain partnerships and S corporations (see instructions)	17	
18 Add lines 16 and 17. Estates and trusts, go to line 19, all others, skip line 19 and go to line 20	18	
19 Amount allocated to beneficiaries of the estate or trust (see instructions)	19	
20 Estates and trusts, subtract line 19 from line 18, all others, enter amount from line 18	20	
21 Form W-2 wage limitation. Enter 50% of line 20	21	
22 Enter the smaller of line 15 or line 21	22	
23 Domestic production activities deduction from cooperatives. Enter deduction from Form 1099-PATR, box 6	23	
24 Expanded affiliated group allocation (see instructions)	24	
25 Domestic production activities deduction. Combine lines 22 through 24 and enter the result here and on Form 1040, line 35; Form 1120, line 25; or the applicable line of your return	25	



Department of the Treasury  
Internal Revenue Service

# Instructions for Form 8903

(Rev. December 2010)

## Domestic Production Activities Deduction

Section references are to the Internal Revenue Code unless otherwise noted.

### What's New

**Rate Change.** For tax years beginning after 2009, the applicable rate for the Domestic Production Activities Deduction (DPAD) described below under *Purpose of Form* has increased from 6% to 9%.

**Oil-related qualified production activities income.** Section 199(d)(9) limits the DPAD of taxpayers with oil-related qualified production activities income for tax years beginning after 2009. See *Oil-related qualified production activities income* on page 3.

**Cooperatives.** New instructions have been added for cooperatives with both patronage and nonpatronage income or losses. See *Allocation of patronage and nonpatronage income and deductions* on page 2, and the instructions for line 25 on page 11, for more information.

**Future revisions of Form 8903.** The IRS will revise the December 2010, version of Form 8903 only when necessary. Continue to use the 2010 version of Form 8903 for tax years beginning after 2009 until a new revision is issued.

**Activities in Puerto Rico.** The section 199 deduction for certain domestic production activities in Puerto Rico has been extended through tax years beginning before January 1, 2012. See *Domestic Production Gross Receipts (DPGR)* and *Form W-2 Wages* for more information about activities in Puerto Rico.

### General Instructions

#### Purpose of Form

Use Form 8903 to figure your domestic production activities deduction (DPAD).

Your DPAD is generally 9% of the smaller of:

1. Your qualified production activities income (QPAI), or

2. Your adjusted gross income for an individual, estate, or trust (taxable income for all other taxpayers) figured without the DPAD.

However, your DPAD generally cannot be more than 50% of the Form W-2 wages you paid to your employees (including Form W-2 wages allocated to you on a Schedule K-1).

**Note.** For taxpayers with oil-related qualified production activities income, the DPAD is reduced by 3% of the least of items 1 and 2, above, and oil-related qualified production activities income.

#### Who Must File

Individuals, corporations, cooperatives, estates, and trusts use Form 8903 to figure their allowable DPAD from certain trade or business activities. Shareholders of S corporations and partners use information provided by the S corporation or partnership to figure their allowable DPAD. Beneficiaries of an estate or trust use information provided by the estate or trust to figure their allowable DPAD. Patrons of certain agricultural or horticultural cooperatives may be allocated a share of the cooperative's DPAD.

However, unless you were allocated a share of a cooperative's DPAD or you are a member of an expanded affiliated group (EAG), you will not be allowed a DPAD unless you can enter on Form 8903 a positive amount for all three of the following.

- Qualified production activities income (QPAI).
- Adjusted gross income for an individual, estate, or trust (taxable income for all other taxpayers).
- Form W-2 wages you paid to your employees. If you did not pay any Form W-2 wages (or have Form W-2 wages allocated to you on a Schedule K-1), you cannot claim a DPAD.

For details, see the discussions of these three items that begin on page 2.

Married individuals filing a joint income tax return figure the deduction

on one Form 8903 using the applicable items of both spouses.

### Definitions and Special Rules

**Trade or business.** QPAI and Form W-2 wages are figured by only taking into account items that are attributable to the actual conduct of a trade or business. An activity qualifies as a trade or business if your primary purpose for engaging in the activity is for income or profit and you are involved in the activity with continuity and regularity. For example, a sporadic activity or a hobby does not qualify as a trade or business.

#### Coordination with other

**deductions.** Expenses that otherwise would be taken into account for purposes of figuring the DPAD are only taken into account if and to the extent the losses and deductions from all of your activities are not disallowed by any of the following provisions.

- Basis limits on a partner's share of partnership losses.
- Basis limits on a shareholder's share of S corporation losses.
- At-risk rules.
- Passive activity rules.
- Any other provision of the Internal Revenue Code.

If only a portion of your losses or deductions are allowed in the current tax year, a proportionate share of the losses or deductions that reflect expenses allocated to your gross receipts from qualified production activities, after applying the provisions listed above, is taken into account for purposes of figuring the DPAD for the current tax year. If any of the losses or deductions disallowed for tax years beginning after 2004 are allowed in a later tax year, a proportionate share of the expenses reflected in those losses or deductions is taken into account in figuring the DPAD in the later tax year.

A net operating loss under section 172 generally is figured without the section 199 deduction.

**S corporations and partnerships.** The DPAD is applied at the

shareholder or partner level. Certain S corporations and partnerships can figure QPAI and Form W-2 wages at the entity level and allocate and report these amounts to shareholders and partners. See *Qualified Production Activities Income (QPAI)* and *Form W-2 Wages* for more information.

All other S corporations and partnerships need to provide each shareholder or partner with information the shareholder or partner needs to figure the DPAD.

**Film production.** S corporation shareholders or partners that own 20% or more (directly or indirectly) of the capital interests in the S corporation or the partnership are treated as having engaged directly in any film produced by the S corporation or partnership, and the S corporation or partnership is treated as having engaged directly in any film produced by the S corporation shareholder or partner. See section 199(d)(1)(A)(iv) for more information.

**Estates and trusts.** Generally, an estate or trust will figure its:

- QPAI (which may be less than zero), and
- Form W-2 wages it paid to its employees (including Form W-2 wages allocated to it on a Schedule K-1).

These items are then allocated among the estate or trust and its beneficiaries based on the relative proportion of the estate's or trust's distributable net income (DNI) for the tax year that is distributed or required to be distributed to the beneficiary or retained by the estate or trust. If the estate or trust has no DNI for the tax year, QPAI and Form W-2 wages are allocated entirely to the estate or trust.

Although estates and trusts actually allocate their QPAI and Form W-2 wages to beneficiaries as discussed above, when completing Form 8903 they must reduce the amounts reported on lines 8 and 18 to reflect the portion of those amounts that were allocated to beneficiaries as QPAI or Form W-2 wages. For details, see *Specific Instructions* on page 8.

**Agricultural and horticultural cooperatives.** Generally, an agricultural or horticultural cooperative can choose to allocate all, some, or none of its allowable DPAD (but not QPAI) to its patrons. For this purpose, an agricultural or horticultural cooperative is an

organization described in section 1381 that is engaged in:

- Manufacturing, producing, growing, or extracting (MPGE) in whole or significant part any agricultural or horticultural product, or
- Marketing agricultural or horticultural products.

An organization engaged in marketing agricultural or horticultural products is treated as MPGE in whole or significant part any qualifying production property marketed by the organization that its patrons have engaged in MPGE. For this purpose, agricultural or horticultural products include fertilizer, diesel fuel, and other supplies used in agricultural or horticultural production.

**Allocation of cooperative DPAD.**

A patron who receives a patronage dividend or qualified per-unit retain certificate can be allocated any portion of the DPAD allowed with respect to the portion of the QPAI to which such payment is attributable. The cooperative must identify the portion of its DPAD allocated to a patron in a written notice mailed to the patron no later than the 15th day of the 9th month following the close of the cooperative's tax year. The allocated DPAD will also be reported to patrons that are not corporations on Form 1099-PATR, Taxable Distributions Received From Cooperatives.

**Note.** Patrons of agricultural or horticultural cooperatives cannot include any distributions of qualified payments from the cooperative in the computation of their DPAD.

**Allocation of patronage and nonpatronage income and deductions.** Cooperatives must calculate the DPAD separately to determine patronage and nonpatronage income or losses for purposes of determining unused patronage or nonpatronage losses on lines 12 and 13, respectively, of Schedule G, Form 1120-C.

If you have only patronage income and deductions, complete the Form 8903 as described in the instructions. However, if you have both patronage and nonpatronage income and deductions, see the instructions for line 25 before completing the Form 8903.

**Expanded affiliated groups (EAGs).**

All members of an EAG are treated as a single corporation to figure their DPAD. The DPAD is allocated among the members of the group in proportion to each member's

respective amount (if any) of QPAI. See the instructions for line 24 before completing Form 8903.

An EAG is an affiliated group as defined in section 1504(a) determined:

- By substituting "more than 50%" for "at least 80%" each place it appears, and
- Without regard to paragraphs (2) and (4) of section 1504(b).

A corporation's status as a member of an EAG is determined on a daily basis. Also, if a corporation joins or leaves an EAG, its status as a member of the EAG is determined at the end of the day on which it joins or leaves the EAG.

If all the capital and profits interests of a partnership are owned by members of a single EAG at all times during the partnership's tax year, the partnership and all members of the group are treated as a single taxpayer to figure their domestic production gross receipts (DPGR) for that tax year.

**Alternative minimum tax (AMT).**

For taxpayers other than corporations, the DPAD used to determine regular tax is also used to determine alternative minimum taxable income (AMTI). Corporations use AMTI (instead of taxable income) figured without the DPAD to figure the alternative minimum DPAD used to determine AMTI.

For details, see the Instructions for Form 4626, Alternative Minimum Tax—Corporations.

**Statistical Sampling.** You are generally allowed to use statistical sampling for purposes of calculating the DPAD. For details about acceptable statistical sampling methodologies, see Rev. Proc. 2007-35. You can find Rev. Proc. 2007-35 on page 1349 of I.R.B. 2007-23 at [www.irs.gov/pub/irs-irbs/irb07-23.pdf](http://www.irs.gov/pub/irs-irbs/irb07-23.pdf).

**Qualified Production Activities Income (QPAI)**

Your allowable DPAD generally cannot be more than 9% of your QPAI. If you do not have QPAI, you generally are not allowed a DPAD. However, you do not need QPAI to claim a DPAD you are allocated as a patron of an agricultural or horticultural cooperative.

**S corporations and partnerships.**

S corporations and partnerships that meet specific requirements can choose to figure QPAI at the entity



level and allocate QPAI to shareholders or partners. The shareholder or partner then combines the allocated portion with QPAI from other sources on Form 8903 to determine the DPAD. S corporations or partnerships that are not eligible to figure QPAI at the entity level must report each shareholder's or partner's share of deductions, expenses, or losses on Schedule K-1 with other information the shareholder or partner needs to figure their DPAD.

**QPAI from an estate or trust.** An estate or trust will figure its QPAI and report each beneficiary's share on Schedule K-1 (Form 1041).

**Figuring QPAI.** QPAI is the excess (if any) of:

1. Domestic production gross receipts (DPGR), over
2. The sum of:
  - a. Cost of goods sold allocable to DPGR, and
  - b. Other expenses, losses, or deductions (other than the DPAD) which are properly allocable to DPGR.

**Cooperatives.** Cooperatives figure QPAI without any deduction for patronage dividends, per-unit retain allocations, or nonpatronage distributions under section 1382(b) or (c).

**Oil-related qualified production activities income.** For tax years beginning after 2009, Section 199(d)(9) reduces the DPAD of taxpayers with oil-related qualified production activities income by 3% of the least of the following amounts.

- Oil-related QPAI,
- QPAI, or
- Adjusted gross income for an individual, estate, or trust (taxable income for all other taxpayers) figured without the DPAD.

Oil-related qualified production activities income is QPAI attributable to the production, refining, processing, transportation, or distribution of oil or gas, or any primary product from oil or gas (section 927(a)(2)(C)), as in effect before its repeal).

**Primary products from oil.**

Primary products from oil are crude oil and all products derived from the destructive distillation of crude oil, including volatile products, light oils such as motor fuel and kerosene, distillates such as naphtha, lubricating oils, greases and waxes, and residues such as fuel oil.

A product or commodity derived from shale oil, which would be a primary product from oil if derived from crude oil, is considered a primary product from oil.

**Primary products from gas.**

Primary products from gas are all gas and associated hydrocarbon components from gas or oil wells, whether recovered at the lease or upon further processing, including natural gas, condensates, liquefied petroleum gases such as ethane, propane, and butane, and liquid products such as natural gasoline.

See Temporary regulations section 1.927(a)-1T(g)(2) for additional information.

**Domestic Production Gross Receipts (DPGR)**

Generally, your gross receipts (defined below) derived from the following activities are DPGR.

1. Construction of real property you perform in the United States in your construction trade or business.
2. Engineering or architectural services you perform in the United States in your engineering or architectural services trade or business for the construction of real property in the United States.
3. Any lease, rental, license, sale, exchange, or other disposition of the following.
  - a. Qualifying production property you manufacture, produce, grow or extract in whole or in significant part in the United States. See *Qualifying Production Property and Manufacturing, Producing, Growing, or Extracting*, below, for details.
  - b. Any qualified film you produce.
  - c. Electricity, natural gas, or potable water you produce in the United States.

**Note.** For purpose of determining DPGR, the United States includes Puerto Rico, if a taxpayer has gross receipts (subject to tax under sections 1 or 11) from sources within Puerto Rico for the first six tax years beginning after December 31, 2005, and before January 1, 2012.

In general, gross receipts derived from the following activities are not DPGR.

- Activities not attributable to the actual conduct of a trade or business.
- The sale of food and beverages you prepare at a retail establishment.
- The lease, rental, or license of property between certain persons treated as a single employer.

- The lease, rental, license, sale, exchange, or other disposition of land.
- The transmission or distribution of electricity, natural gas, or potable water.
- Advertising and product-placement; however, see Regulations section 1.199-3(i)(5)(ii) for exceptions.
- Customer and technical support, telephone and other telecommunications services, online services (including Internet access services, online banking services, providing access to online electronic books, newspapers, and journals) and other similar services; however, see Regulations section 1.199-3(i)(6)(iii) for exceptions.

**Gross receipts.** Gross receipts include the following amounts from your trade or business activities.

- Total sales (net of returns and allowances).
- Amounts received for services, not including wages received as an employee.
- Income from incidental or outside sources (including sales of business property).

Gross receipts are generally not reduced by the:

- Cost of goods sold, or
- Adjusted basis of property (other than capital assets) sold or otherwise disposed of if such property is described in section 1221(a)(1) through (5).

**Allocation of gross receipts.** You generally must allocate your gross receipts between DPGR and non-DPGR. Allocate gross receipts using a reasonable method that accurately identifies gross receipts that are DPGR. However, if less than 5% of your gross receipts are non-DPGR, you can treat all of your gross receipts as DPGR. Also, if less than 5% of your gross receipts are DPGR, you can treat all of your gross receipts as non-DPGR.

For details, see Regulations section 1.199-1(d).

**EAG Partnerships.** A partnership is an EAG partnership if a single EAG owns all the interests in the capital and profits of the partnership at all times during the tax year. If the requirements are met, the EAG partnership and all members of the EAG are treated as a single taxpayer for purposes of determining the amount of domestic production gross receipts (DPGR).

Special rules apply to the attribution of gross receipts (a) to a

member of the EAG from the disposition of property an EAG partnership engaged in MPGE, and (b) to an EAG partnership from the disposition of property another EAG partnership engaged in MPGE, both of which are members of the same EAG. See Regulations section 1.199-3(i)(8) for more information, exceptions, and other rules.

### **Qualifying Production Property**

The following are qualifying production property.

- Tangible personal property.
- Computer software.
- Sound recordings.

#### **Tangible personal property.**

Tangible personal property includes any tangible property other than land, buildings (including structural components), computer software, sound recordings, qualified films, electricity, natural gas, or potable water. Tangible personal property also includes any gas (other than natural gas), chemical, and similar property, such as steam, oxygen, hydrogen, or nitrogen.

Machinery, printing presses, transportation and office equipment, refrigerators, grocery counters, testing equipment, display racks and shelves, and neon and other signs that are contained in or attached to a building constitute tangible personal property.

**Note.** Local law does not control whether property is tangible personal property.

See Regulations section 1.199-3(j)(2) for more information.

**Computer software.** In general, computer software includes the following:

- Any program, routine, or sequence of machine-readable code that is designed to cause a computer to perform a desired function or set of functions, and the documentation required to describe or maintain that program or routine. An electronic book online or for download does not constitute computer software.
- Machine-readable code for (a) video games or similar programs, (b) equipment that is an integral part of other property, and (c) typewriters, calculators, adding and accounting machines, copiers, duplicating equipment, and similar equipment, even if the program is not designed to operate on a computer as defined in section 168(i)(2)(B).
- Computer programs including, but not limited to, operating systems,

executive systems, monitors, compilers and translators, assembly routines, utility programs, and application programs.

- Any incidental and ancillary rights that are necessary for the acquisition of the title to, the ownership of, or the right to use computer software, and that are used only in connection with that specific software. These incidental and ancillary rights are not included in the definition of a trademark or trade name under Regulations section 1.197-2(b)(10)(i).

**Exception.** Computer software does not include any data or information base unless the data or information base is in the public domain and is incidental to a computer program.

**Example.** If a word processing program includes a dictionary feature that may be used to spell-check a document then the entire program (including the dictionary feature) is a computer software program regardless of the form in which the dictionary feature is maintained or stored.

See Regulations section 1.199-3(j)(3) for more information.

**Sound Recordings.** Sound recordings include any works that result from the fixation of a series of musical, spoken, or other sounds. The definition of sound recordings is limited to the master copy of the recordings (or other copy from which the holder is licensed to make and produce copies), and if the medium (such as compact discs, tapes, or other phonorecordings) in which the sounds may be embodied, is tangible, then the medium is considered tangible personal property.

**Exception.** Sound recordings do not include the creation of copy-righted material in a form other than a sound recording, such as lyrics or music composition.

See Regulations section 1.199-3(j)(4) for more information.

**Qualified film.** A qualified film is any motion picture film, video tape, or live or delayed television programming, for which 50% or more of the total compensation required to produce the film is paid for services performed by actors, production personnel, directors, and producers in the United States.

A qualified film includes the copyrights, trademarks, or other intangibles related to the film. Also, a section 199 deduction can be taken for the production of a qualified film

regardless of the methods and means by which the film is distributed.

See section 199(c)(6) and Regulations section 1.199-3(k) for more information. For special rules related to S corporations, partnerships, S corporation shareholders, and partners, participating in the production of films, see *Film production under S corporations and partnerships* on page 2.

### **Manufacturing, Producing, Growing, or Extracting**

Manufacturing, producing, growing, and extracting (MPGE) generally include the following trade or business activities.

- Activities related to manufacturing, producing, growing, extracting, installing, developing, improving, and creating qualifying production property.
- Making qualifying production property out of scrap, salvage, or junk material, or from new or raw material by processing, manipulating, refining, or changing the form of an article, or by combining or assembling two or more articles.
- Cultivating soil, raising livestock, fishing, and mining minerals.
- Storage, handling, or other processing activities (other than transportation activities) in the United States related to the sale, exchange, or other disposition of agricultural products, provided the products are consumed in connection with, or incorporated into, manufacturing, producing, growing, or extracting qualifying production property whether or not by the taxpayer.

For details, see Regulations section 1.199-3(e).

**Qualifying in-kind partnerships.** In general, partners of qualifying in-kind partnerships are treated as manufacturing, producing, growing or extracting the property they receive as a distribution from the partnership. For purposes of section 199, a qualifying in-kind partnership is a partnership engaged in any of the following activities.

- The extraction, refining, or processing of oil, natural gas (as defined in Regulations section 1.199-3(l)(2)), petrochemicals, or products derived from oil, natural gas, or petrochemicals, in whole or significant part within the United States.
- The production or generation of electricity in the United States.

- The extraction and processing of minerals (as defined in Regulations section 1.611-1(d)(5)) within the United States.
- Any other industry or activity designated as an industry or activity of a qualifying in-kind partnership by publication in the Internal Revenue Bulletin.

For more information on qualifying in-kind partnerships, see Regulations sections 1.199-3(i)(7) and 1.199-9(i). For qualifying in-kind partnerships engaged solely in the extraction and processing of minerals, see Rev. Rul. 2007-30 on page 1277 of I.R.B. 2007-21 at [www.irs.gov/pub/irs-irbs/irb07-21.pdf](http://www.irs.gov/pub/irs-irbs/irb07-21.pdf).

### Cost of Goods Sold

For purposes of the DPGR, cost of goods sold includes the:

- Cost of goods sold to customers, and
- Adjusted basis of non-inventory property you sold or otherwise disposed of in your trade or business.

### Allocation of cost of goods sold.

Generally, you must allocate your cost of goods sold between DPGR and non-DPGR using a reasonable method. If you use a method to allocate gross receipts between DPGR and non-DPGR, the use of a different method to allocate cost of goods sold will not be considered reasonable, unless it is more accurate. However, if you qualify to use the small business simplified overall method you can use it to apportion both cost of goods sold and other deductions, expenses, and losses between DPGR and non-DPGR.

For details, see Regulations section 1.199-4.

**Form W-2 wages.** To determine the amount of Form W-2 wages to include in cost of goods sold, see *Wage expense included in cost of goods sold*, on page 8.

### Other Deductions, Expenses, or Losses

Other deductions, expenses, or losses include all deductions, expenses, or losses (other than cost of goods sold and employee business expenses) from a trade or business.

**Allocation and apportionment of other deductions, expenses, or losses.** You can generally use one of the following three methods to allocate and apportion other trade or business deductions, expenses, or

losses between DPGR and non-DPGR.

- Small business simplified overall method.
- Simplified deduction method.
- Section 861 method.

However, do not allocate and apportion a net operating loss deduction or deductions not attributable to the conduct of a trade or business to DPGR under any of the methods.

**S corporations and partnerships.** S corporations and partnerships that meet specific requirements can choose to figure QPAI at the entity level and allocate the QPAI to shareholders or partners. S corporations or partnerships that are not eligible to figure QPAI under those rules, must report each shareholder's or partner's share of its deductions, expenses, or losses on Schedule K-1 with other information the shareholder or partner needs to figure their DPAD.

**Estates and trusts.** An estate or trust allocates directly attributable trade or business deductions, expenses, or losses between DPGR and non-DPGR under Regulations section 1.652(b)-3. An estate or trust that is eligible must use the simplified deduction method to allocate indirectly attributable trade or business deductions, expenses, or losses between DPGR and non-DPGR. Otherwise, the estate or trust uses the section 861 method to allocate these indirect items.

### Small Business Simplified Overall Method

You generally can use the small business simplified overall method to apportion cost of goods sold and other deductions, expenses, and losses between DPGR and non-DPGR if you meet any of the following tests.

- You are engaged in the trade or business of farming and are not required to use the accrual method of accounting (see section 447).
- Your average annual gross receipts (defined below) are \$5 million or less.
- You are eligible to use the cash method of accounting under Rev. Proc. 2002-28. You can find Rev. Proc. 2002-28 on page 815 of I.R.B. 2002-18 at [www.irs.gov/pub/irs-irbs/irb02-18.pdf](http://www.irs.gov/pub/irs-irbs/irb02-18.pdf).

Under the small business simplified overall method, your total cost of goods sold and other deductions, expenses, and losses are

ratably apportioned between DPGR and non-DPGR based on relative gross receipts.

**Example.** Your total cost of goods sold and other trade or business deductions, expenses, or losses are \$400 and do not include a net operating loss deduction. You have \$1,000 total gross receipts and \$750 DPGR. Your DPGR equal 75% of your total gross receipts. Under the small business simplified overall method, you subtract \$300 ( $\$400 \times .75$ ) of your total cost of goods sold and other trade or business deductions, expenses, or losses from your DPGR to figure your QPAI, which is \$450 (\$750 minus \$300).

### Average annual gross receipts.

For this purpose, your average annual gross receipts are your average annual gross receipts for the preceding 3 tax years. If your business has not been in existence for 3 tax years, base your average on the period it has existed. Include any short tax years by annualizing the short tax year's gross receipts by (a) multiplying the gross receipts for the short period by 12 and (b) dividing the result by the number of months in the short period.

**Excluded entities.** Estates and trusts cannot use the small business simplified overall method. Also, certain oil and gas partnerships and certain partnerships owned by expanded affiliated groups cannot use the small business simplified overall method.

For details, see Regulations section 1.199-4(f).

### S corporations and partnerships.

An S corporation or partnership can choose to use the small business simplified overall method to figure QPAI at the entity level and allocate that QPAI to shareholders or partners if it meets the requirements of an eligible small pass-through entity. A shareholder or partner who is allocated QPAI from an eligible small pass-through entity must report that QPAI on line 7. An S corporation or partnership is an eligible small pass-through entity if it meets each of the following requirements for the current tax year.

- It satisfies one of the following requirements: (a) it has average annual gross receipts for the three tax years preceding the current tax year of \$5 million or less, (b) it is engaged in the trade or business of farming and is not required to use the accrual method of accounting, or (c) it is

eligible to use the cash method of accounting under Rev. Proc. 2002-28 (that is, it has average annual gross receipts of \$10 million or less and is not excluded from using the cash method under Section 448 of the Internal Revenue Code).

- It has total cost of goods sold and deductions (excluding the net operating loss deduction) added together of \$5 million or less.
- It has DPGR.
- If a partnership, it does not have a partner that is an ineligible partnership (qualifying in-kind partnerships or expanded affiliated group partnerships as defined in Regulations sections 1.199-3(i)(7) and (8)).

**Expanded affiliated groups.** For additional rules that apply to expanded affiliated groups, see Regulations section 1.199-4(f)(4).

**Oil-related production activities.** If you have oil-related qualified production activities income, and you choose to use the small business simplified overall method, you must allocate part of these costs to DPGR from oil-related production activities to determine oil-related QPAI. See the instructions for line 4 on page 9.

### **Simplified Deduction Method**

You generally can use the simplified deduction method to apportion other deductions, expenses, and losses (but not cost of goods sold) between DPGR and non-DPGR if you meet either of the following tests.

- Your total trade or business assets at the end of your tax year are \$10 million or less.
- Your average annual gross receipts (defined above) are \$100 million or less.

Under the simplified deduction method, your other trade or business deductions, expenses, or losses are ratably apportioned between DPGR and non-DPGR based on relative gross receipts.

**Example.** Your total other trade or business deductions, expenses, or losses are \$400 and do not include a net operating loss. You have \$240 of cost of goods sold allocable to DPGR. You have \$1,000 total gross receipts and \$600 DPGR. Your DPGR equal 60% of your total gross receipts. Under the simplified deduction method, you subtract \$240 ( $\$400 \times .60$ ) of your total other trade or business deductions, expenses, or losses from your DPGR to figure your QPAI, which is \$120 (\$600 minus \$240 minus \$240).

### **S corporations and partnerships.**

An S corporation or partnership can choose to use the simplified deduction method to figure QPAI at the entity level and allocate that QPAI to shareholders or partners if it meets the requirements of an eligible widely-held pass-through entity. A shareholder or partner who is allocated QPAI from an eligible widely-held pass-through entity must report that QPAI on line 7. An S corporation or partnership is an eligible widely-held pass-through entity if it meets each of the following requirements for its current tax year.

- Either of the two tests discussed earlier under *Simplified Deduction Method*.
- It has total cost of goods sold and deductions added together of \$100 million or less.
- It has DPGR.
- On every day during the current tax year, all of its shareholders or partners are individuals, estates, or trusts described (or treated as described) in section 1361(c)(2).
- On every day during the current tax year, no shareholder or partner owns, alone or combined with the ownership interests of all related persons, more than 10% of (a) total shares of the S corporation or (b) the profits or capital interests in the partnership.

**Estates and trusts.** If eligible under the above rules, an estate or trust must use the simplified deduction method to allocate its indirectly attributable trade or business deductions, expenses, or losses between DPGR and non-DPGR. All estates and trusts must allocate directly attributable deductions, expenses, or losses between DPGR and non-DPGR under Regulations section 1.652(b)-3.

**Expanded affiliated groups.** For additional rules that apply to expanded affiliated groups, see Regulations section 1.199-4(e)(4).

**Oil-related production activities.** If you have oil-related qualified production activities income, and you choose to use the simplified deduction method, you must allocate part of these costs to DPGR from oil-related production activities to determine oil-related QPAI. See the instructions for line 3 on page 9.

### **Section 861 Method**

You do not have to meet any tests to use the section 861 method. Under the section 861 method, you generally must apply the rules of the section 861 regulations to allocate

and apportion other trade or business deductions, expenses, or losses between DPGR and non-DPGR. Section 199 is treated as an "operative section" described in Regulations section 1.861-8(f).

For details, see Regulations section 1.199-4(d).

For guidance on automatic approval to change certain elections relating to the apportionment of interest expense and research and experimentation expenditures, see Rev. Proc. 2006-42. You can find Rev. Proc. 2006-42 on page 931 of I.R.B. 2006-47 at [www.irs.gov/pub/irs-irbs/irb06-47.pdf](http://www.irs.gov/pub/irs-irbs/irb06-47.pdf).

**S corporations.** An S corporation cannot use the section 861 method to figure QPAI. Unless it is eligible to use the small business simplified overall method or simplified deduction method, an S corporation must report each shareholder's share of its deductions, expenses, or losses on Schedule K-1 that the shareholder needs to figure their DPAD.

**Partnerships.** A partnership can choose to use the 861 method to figure QPAI at the entity level and allocate that QPAI to qualifying partners (defined below) if it meets the requirements of an eligible 861 partnership. A partner who is allocated QPAI from an eligible 861 partnership must report that QPAI on line 7. An eligible 861 partnership must meet the following requirements for its current tax year.

- It has at least 100 partners on any day during the partnership's tax year.
- At least 70% of the partnership is owned, at all times during its tax year, by qualifying partners (defined next).
- It has DPGR.

**Qualifying partner.** A qualifying partner is a partner that, on each day during the partnership's tax year that the partner owns an interest in the partnership:

- Is not a general partner or a managing member of a partnership organized as a limited liability company,
- Does not materially participate (discussed below) in the activities of the partnership,
- Does not own, alone or combined with the interests of all related persons (defined next), 5% or more of the profits or capital interests in the partnership,
- Is not an ineligible partnership (qualifying in-kind partnership or expanded affiliated group partnership

as defined in Regulations sections 1.199-3(i)(7) and (8)).

**Related persons.** For purposes of determining whether a partner is a qualifying partner, persons are related if they meet the requirements of sections 267(b) or 707(b), disregarding sections 267(e)(1) and (f)(1)(A).

**Material participation.** A qualifying partner cannot materially participate in the activities of the partnership. See section 5.05 of Rev. Proc. 2007-34 for the definition of material participation.

**Non-qualifying partners.** An eligible 861 partnership cannot allocate QPAI to non-qualifying partners (see *Qualifying partner*, above). Instead, the partnership must report each non-qualifying partner's share of deductions, expenses, or losses on Schedule K-1 that the partner needs to figure their DPAD. The partnership items allocated to non-qualifying partners must be excluded for purposes of computing QPAI at the partnership level.

**Estates and trusts.** An estate or trust that cannot use the simplified deduction method must use the section 861 method to allocate and apportion its indirectly attributable trade or business deductions, expenses, or losses between DPGR and non-DPGR. All estates and trusts must allocate directly attributable deductions, expenses, or losses between DPGR and non-DPGR under Regulations section 1.652(b)-3.

**Oil-related production activities.** If you have oil-related qualified production activities income, apply the rules of section 861 to determine the amount of other trade or business deductions, expenses, or losses to deduct for purposes of determining oil-related QPAI.

## Adjusted Gross or Taxable Income

Your allowable DPAD generally cannot be more than 9% of your adjusted gross income if you are an individual, estate, or trust (taxable income for all other taxpayers) figured without the DPAD. If you do not have adjusted gross or taxable income, you generally are not allowed a DPAD.

**Note.** Although patrons without adjusted gross or taxable income can claim a DPAD, the DPAD cannot create or increase a net operating loss under section 172(d). However,

you do not need taxable income to claim a DPAD you are allocated as a member of an Expanded Affiliated Group (EAG), and the DPAD can create or increase a net operating loss under section 1.199-7(c)(2).

**Agricultural and horticultural cooperatives.** For this purpose, figure taxable income without taking into account any allowable deduction for patronage dividends, per-unit retain allocations, or nonpatronage distributions.

**Estates and trusts.** See the instructions for line 11 on page 9 to figure adjusted gross income.

**Unrelated business taxable income (UBTI).** The allowable DPAD of an organization taxed on its UBTI under section 511 generally cannot be more than 9% of its UBTI figured without the DPAD.

## Form W-2 Wages

Your allowable DPAD generally cannot be more than 50% of the Form W-2 wages you paid to your employees (including Form W-2 wages allocated to you on a Schedule K-1). If you did not pay Form W-2 wages, you generally are not allowed a DPAD. However, you do not need Form W-2 wages to claim a DPAD you are allocated as a:

- Patron of an agricultural or horticultural cooperative, or
- Member of an expanded affiliated group.

**Note.** When figuring your DPAD, the limit equal to 50% of Form W-2 wages is based only on Form W-2 wages properly allocable to DPGR.

**Form W-2 wages from an S corporation or partnership.** S corporations and partnerships that meet specific requirements can choose to figure Form W-2 wages at the entity level and report the allocated portion of Form W-2 wages on Schedule K-1 to the S corporation shareholder or partner who then combines the allocated portion with Form W-2 wages from other sources on Form 8903 to determine the DPAD.

If the S corporation or partnership meets the requirements to be classified as one of the eligible entities listed below, it can figure Form W-2 wages at the entity level and allocate Form W-2 wages to S corporation shareholders or partners.

- Eligible small pass-through entity. See *S corporations and partnerships*, under *Small Business Simplified*

*Overall Method*, on page 5 for the requirements.

- Eligible widely-held pass-through entity. See *S corporations and partnerships*, under *Simplified Deduction Method*, on page 6 for the requirements.
- Eligible 861 partnership. See *Partnerships*, under *Section 861 Method*, on page 6 for the requirements.

**Form W-2 wages from an estate or trust.** An estate or trust generally will figure its Form W-2 wages and apportion them between the beneficiary and the fiduciary (and among the beneficiaries) and report each beneficiary's share on Schedule K-1 (Form 1041).

**Form W-2 wages for services performed in Puerto Rico.** Taxpayers that determine DPGR under section 199(d)(8)(A), figure Form W-2 wages by including wages paid for services performed in Puerto Rico without regard to section 3401(a)(8) during the first six tax years beginning after December 31, 2005, and before January 1, 2012.

**Form W-2 wages paid to produce a qualified film.** Form W-2 wages include compensation for services performed in the United States by actors, production personnel, directors, and producers to produce a qualified film. See *Qualified film* on page 4 for more information.

## Figuring Form W-2 Wages Used To Figure the 50% Limit

You figure Form W-2 wages used to figure the 50% limit in two steps. First, you must determine the amount of wages to classify as Form W-2 wages under Regulations section 1.199-2(e)(1). See *Figuring Form W-2 Wages*, below. Second, you must figure Form W-2 wages that are properly allocable to DPGR.

You can figure Form W-2 wages that are properly allocable to DPGR using one of the safe harbor methods discussed under *Form W-2 Wages Allocable to DPGR* on page 8. Also, you can use any reasonable method based on all the facts and circumstances.

## Figuring Form W-2 Wages

You can use one of the following three methods to figure your Form W-2 wages.

- Unmodified box method.
- Modified box 1 method.
- Tracking wages method.

After you figure Form W-2 wages, see *Form W-2 Wages Allocable to DPGR* on page 8 to determine the Form W-2 wages to report on line 16 of Form 8903.

**Relevant Forms W-2.** To figure your Form W-2 wages, generally use the sum of the amounts you properly report for each employee on Form W-2, Wage and Tax Statement, for the calendar year ending with or within your tax year. However, do not use any amounts reported on a Form W-2 filed with the Social Security Administration more than 60 days after its due date (including extensions).

**Non-duplication rule.** Amounts that are treated as Form W-2 wages for a tax year under any method cannot be treated as Form W-2 wages for any other tax year. Also, an amount cannot be treated as Form W-2 wages by more than one taxpayer.

**Unmodified box method.** Under the unmodified box method, Form W-2 wages are the **smaller** of:

1. The sum of the amounts reported in box 1 of the relevant Forms W-2, or
2. The sum of the amounts reported in box 5 of the relevant Forms W-2.

**Modified box 1 method.** Under the modified box 1 method, Form W-2 wages are figured as follows.

1. Add the amounts reported in box 1 of the relevant Forms W-2.
2. Add all the amounts described below and included in box 1 of the relevant Forms W-2.
  - a. Amounts not considered wages for federal income tax withholding purposes.
  - b. Supplemental unemployment compensation benefits.
  - c. Sick pay or annuity payments from which the recipient requested federal income tax withholding.
3. Subtract (2) from (1).
4. Add together any amounts reported in box 12 of the relevant Forms W-2 that are properly coded D, E, F, G, or S.
5. Add (3) and (4).

**Tracking wages method.** Under the tracking wages method, Form W-2 wages are figured as follows.

1. Add the amounts reported in box 1 of the relevant Forms W-2 that are also wages for federal income tax withholding purposes.
2. Add any amounts reported in box 1 of the relevant Forms W-2 that are both:

- a. Wages for federal income tax withholding purposes, and
- b. Supplemental unemployment compensation benefits.

3. Subtract (2) from (1).

4. Add together any amounts reported in box 12 of the relevant Forms W-2 that are properly coded D, E, F, G, or S.

5. Add (3) and (4).

### Form W-2 Wages Allocable to DPGR

After you calculate Form W-2 wages, as discussed above, you must figure Form W-2 wages that are properly allocable to DPGR. You report the Form W-2 wages that are properly allocable to DPGR on line 16 of Form 8903.

You can figure Form W-2 wages that are properly allocable to DPGR under one of the following methods.

- Small business simplified overall method safe harbor.
- Wage expense safe harbor.
- Any other reasonable method based on all the facts and circumstances.

**Small business simplified overall method safe harbor.** If you use the small business simplified overall method to allocate costs between DPGR and non-DPGR (see *Small Business Simplified Overall Method* on page 5), you can use the small business simplified overall method safe harbor to determine the amount of Form W-2 wages allocable to DPGR. Under this safe harbor method, the amount of Form W-2 wages that is properly allocable to DPGR equals the proportion of DPGR to total gross receipts.

**Wage expense safe harbor.** If you are using either the section 861 method of cost allocation under Regulations section 1.199-4(d) or the simplified deduction method under Regulations section 1.199-4(e), you determine the amount of wages properly allocable to DPGR by multiplying the amount of wages for the tax year by the ratio of your wage expense included in calculating QPAI for the tax year to your total wage expense used in calculating your taxable income (or adjusted gross income) for the tax year without regard to any wage expenses disallowed by sections 465, 469, 704(d), or 1366(d).

If you use the section 861 method or the simplified deduction method, you must use the same expense allocation and apportionment

methods that you use to determine QPAI to allocate and apportion wage expense for purposes of the safe harbor.

**Wage expense included in cost of goods sold.** After you determine the amount of wages under the wage expense safe harbor, discussed above, you can allocate a portion of those wages to cost of goods sold by any reasonable method based on the facts and circumstances. For example, you can include wage expense in cost of goods sold in proportion to (a) the amount of direct labor included in cost of goods sold, or (b) section 263A labor costs (as defined in Regulations section 1.263A-1(h) (4)(ii)) included in cost of goods sold. See Regulations section 1.199-2(e)(2)(ii)(B) for more information.

**More information.** For more information on figuring your Form W-2 wages, see Regulations section 1.199-2 and Rev. Proc. 2006-47. You can find Rev. Proc. 2006-47 on page 869 of I.R.B. 2006-45 at [www.irs.gov/pub/irs-irbs/irb06-45.pdf](http://www.irs.gov/pub/irs-irbs/irb06-45.pdf).

For more information on figuring Form W-2 wages properly allocable to DPGR, see Regulations section 1.199-2(e)(2).

## Specific Instructions



**CAUTION** Complete lines 1 through 10, column (a), **only** if you have oil-related production activities. All others, **do not** complete lines 1 through 9, column (a), and enter zero on line 10a.

Enter amounts for all activities (including oil-related production activities) on lines 1 through 10, column (b).

### Line 1 Domestic Production Gross Receipts (DPGR)

Enter your DPGR (defined on page 3).

### Line 2 Allocable Cost of Goods Sold

If you are not using the small business simplified overall method, enter your cost of goods sold allocable to DPGR (discussed on page 5).



### Line 3

If you are using the simplified deduction method (discussed on page 6), enter the other deductions or losses you ratably apportion to DPGR. If you are using the section 861 method (discussed on page 6), enter the other deductions or losses you allocate and apportion to DPGR. If you are using small business simplified overall method, see the instructions for line 4, below.

**Oil-related production activities.** If you use the simplified deduction method to calculate the other deductions or losses reported on line 3, column (b), you must make an additional calculation to determine the amount to report on line 3, column (a). Multiply the amount reported on line 3, column (b), by the ratio of oil-related DPGR reported on line 1, column (a) divided by DPGR from all activities reported on line 1, column (b). Enter the result on line 3, column (a). Do not reduce the amount reported on line 3, column (b), by this amount.

If you use the section 861 method, apply the rules of section 861 to determine the amount to report on line 3, column (a). If you are using the small business simplified overall method, see *Oil-related production activities*, under the instructions for line 4, next.

### Line 4

If you are using the small business simplified overall method (discussed on page 5), enter the amount of cost of goods sold and other deductions or losses you ratably apportion to DPGR.

**Oil-related production activities.** If you use the small business simplified overall method to calculate the cost of goods sold and other deductions, expenses, and losses reported on line 4, column (b), you must make an additional calculation to determine the amount to report on line 4, column (a). Multiply the amount reported on line 4, column (b), by the ratio of oil-related DPGR reported on line 1, column (a), divided by DPGR from all activities reported on line 1, column (b). Enter the amount on line 4, column (a). Do not reduce the amount reported on line 4, column (b), by this amount.

### Line 7

Beneficiaries of estates and trusts, partners, and S corporation shareholders report the QPAI

distributed from estates or trusts, and certain partnerships or S corporations on line 7. The QPAI should be reported to you on Schedule K-1 for Forms 1041, 1065, or 1120S. See the related Schedule K-1 and its instructions for more information.

### Line 9

Estates and trusts must use Regulations section 1.652(b)-3 to allocate QPAI to beneficiaries if DNI is distributed or required to be distributed to beneficiaries. Report the amount of QPAI allocated to beneficiaries on line 9. See *Estates and trusts* on page 2.

### Line 10a Oil-related Qualified Production Activities Income

Add lines 1 through 9, column (a), to determine oil-related qualified production activities income. If you do not have oil-related qualified production activities income, do not complete lines 1 through 9, column (a), and enter zero on line 10a.

### Line 11 Income Limitation

**Individuals.** Enter your adjusted gross income from line 37 of Form 1040 figured without the DPAD.

**Corporations.** Enter your taxable income from the applicable line of your tax return (for example, line 30 of Form 1120) figured without the DPAD.

**Members of EAGs.** See the instructions for line 24.

**Agricultural and horticultural cooperatives.** Enter your taxable income figured without the DPAD or the deductions for patronage dividends, per-unit retain allocations, and nonpatronage distributions under section 1382(b) or (c).

**Estates and trusts.** Enter your adjusted gross income figured without the DPAD. See the Instructions for Form 1041 to figure adjusted gross income. Use the method discussed under *How to figure AGI for estates and trusts*, under *Line 15b—Allowable Miscellaneous Itemized Deductions Subject to the 2% Floor*.

**Unrelated business taxable income (UBTI).** An organization taxed on its UBTI under section 511 enters its UBTI from line 34 of Form 990-T figured without the DPAD.

**Note.** If you have extraterritorial income (ETI), figure taxable income without regard to any claimed ETI exclusions.

See Regulations section 1.199-1(b)(1) for more information.

### Line 14a

If you have oil-related qualified production income, use line 14a to determine the least of the following amounts.

- Oil-related QPAI—line 10a,
- QPAI—line 10b, or
- Adjusted gross income for an individual, estate, or trust (taxable income for all other taxpayers)—line 11.

All others, enter zero on line 14a.

### Line 14b Reduction for Oil-related Qualified Production Activities Income

If you have oil-related qualified production income, use line 14b to reduce your DPAD by 3% of the amount reported on line 14a.

All others, enter zero on line 14b.

### Line 16 Form W-2 Wages

Enter your Form W-2 wages that are properly allocable to DPGR (discussed on page 8). Do not include Form W-2 wages you must report on line 17.

### Line 17

Beneficiaries of estates and trusts, partners, and S corporation shareholders report the Form W-2 wages distributed from estates or trusts, and certain partnerships or S corporations on line 17. The Form W-2 wages should be reported to you on the Schedule K-1 for Forms 1041, 1065, or 1120S. See the related Schedule K-1 and its instructions for more information.

### Line 19

Estates and trusts must use Regulations section 1.652(b)-3 to allocate Form W-2 wages to beneficiaries if DNI is distributed or required to be distributed to beneficiaries. Report the amount of the Form W-2 wages allocated to beneficiaries on line 19. See *Estates and trusts* on page 2.

## Line 24 Expanded Affiliated Group Allocation

The instructions below explain how expanded affiliated groups (EAGs) (defined on page 2) figure and report the DPAD. Certain members of an expanded affiliated group may not be required to complete the entire Form 8903. See *How To Report* on page 10.

### Computation of the EAG's DPAD

In general, the DPAD for an EAG is determined by aggregating each member's taxable income or loss, QPAI, and Form W-2 wages. A member's QPAI may be positive or negative. Also, a member's taxable income or loss and QPAI are determined under the member's method of accounting.

**Members with different tax years.** If members of an EAG have different tax years, in determining the DPAD of a member, the reporting member must take into account the taxable income or loss, QPAI, and Form W-2 wages of each group member that are both:

- Attributable to the period that the member of the EAG and the reporting member are both members of the EAG, and
- Taken into account in a tax year that ends with or within the tax year of the reporting member with respect to which the DPAD is figured.

For an example that explains the above requirements, see Regulations section 1.199-7.

**Net operating losses.** The net operating loss (NOL) of a member of an EAG that is used in the computation of the EAG's taxable income is not treated as an NOL carryback or carryover to determine the taxable income limitation in a prior or subsequent year for purposes of section 199(a)(1)(B). See Regulations section 1.199-7(b)(4) for more information.

### Allocation of the DPAD to Members of the EAG

The EAG's DPAD is allocated among members of the EAG based on the ratio of each member's QPAI to the total QPAI of the EAG. The allocation is made regardless of whether the EAG member has taxable income or loss or Form W-2 wages for the tax year. If a member has negative QPAI,

that member's QPAI is treated as zero for purposes of the allocation.

### Consolidated Groups

Under section 199, a consolidated group is treated as a single member of the EAG. If all members of an EAG are members of the same consolidated group, the DPAD of the consolidated group is determined based on the consolidated taxable income or loss, QPAI, and Form W-2 wages of the group and not the separate taxable income or loss, QPAI, and Form W-2 wages of its members. The consolidated group will generally file only one Form 8903. For details, see Regulations section 1.199-7.

If an EAG includes both consolidated and non-consolidated members, the consolidated (not separate) taxable income or loss, QPAI, and Form W-2 wages of the consolidated group are aggregated with the taxable income or loss, QPAI, and Form W-2 wages of the non-consolidated group members to determine the DPAD. For details, see Regulations section 1.199-7(d)(4).

A consolidated group's DPAD (or the DPAD allocated to a consolidated group that is a member of an EAG) is allocated to the members of the consolidated group in proportion to each member's QPAI, if any, regardless of whether the consolidated group member has:

- Separate taxable income or loss for the tax year, and
- Form W-2 wages for the tax year.

For purposes of allocating the DPAD of a consolidated group among its members, if a consolidated group member has negative QPAI, the member's QPAI is treated as zero.

**Simplified deduction and small business simplified overall methods.** For purposes of applying the simplified deduction method and the small business simplified overall method, a consolidated group determines its QPAI by reference to its members' DPGR, non-DPGR, cost of goods sold, and all other deductions, expenses, or losses, determined on a consolidated basis.

### How To Report

All members of an EAG are treated as a single corporation for purposes of determining the DPAD. However, the DPAD is allocated to each member.

**EAG reporting member.** The EAG chooses a reporting member from amongst all members of the EAG with

the same tax year to figure the DPAD for all EAG members (computing members). The reporting member completes lines 10a through 16 and lines 18 through 22 of the Form 8903 for the group.

The reporting member also does the following.

1. Enters the portion of the deduction allocated to the other members of the EAG (including non-computing members) as a negative number on line 24.
2. Completes lines 23 and 25.
3. Attaches a schedule showing how the reporting member figured its own QPAI.
4. Attaches a schedule that shows how the DPAD was figured for the group and each member's name, EIN, and share of the DPAD.
5. Provides a copy of the group DPAD computation schedule to the other computing members of the group.

**EAG computing member other than the reporting member.** An EAG computing member other than the reporting member does the following.

1. Completes a separate Form 8903, skips lines 1-22, and enters its share of the group deduction on line 24 as a positive number.
2. Completes lines 23 and 25.
3. Attaches a schedule showing how the computing member figured its own QPAI.
4. Attaches a copy of the group DPAD computation schedule provided by the reporting member.

**Consolidated groups.** If the EAG is comprised of a single consolidated group, the common parent of the consolidated group completes lines 1 through 25 for the group. If the EAG is comprised of more than just the members of a single consolidated group, the common parent files a Form 8903 for the consolidated group as either the reporting member or as an EAG member other than the reporting member, whichever is appropriate. In all events, the common parent attaches a schedule that shows the amount of the consolidated group's DPAD allocated to each member of the consolidated group, and how the allocated amount was calculated.



## Line 25 Domestic Production Activities Deduction

Combine lines 22 through 24 and enter the result on line 25 and the appropriate line of your tax return.

### Agricultural and horticultural cooperatives

Reduce the amount the cooperative deducts under section 1382 by the portion of the cooperative's DPAD allocated to its patrons. However, the entire amount on line 25, which includes any amount allocated to patrons, is deductible under section 199 by the cooperative. See *Agricultural and horticultural*

*cooperatives* on page 2 for more information on this subject.

**How to report.** Cooperatives are not permitted to net patronage losses with nonpatronage income. Therefore, they must compute taxable income from patronage or nonpatronage activities separately on Schedule G, Form 1120-C.

**Patronage income and deductions only.** Cooperatives that have only patronage income and deductions generally complete the Form 8903 as described earlier in the instructions.

**Patronage and nonpatronage income and deductions.** Cooperatives with both patronage and nonpatronage income or

deductions must follow the below instructions for completing Form 8903.

Report the total amount of the DPAD to be claimed on Form 1120-C on line 25 of Form 8903, and leave lines 1 to 24 blank. Attach to Form 8903 separate calculations of the DPAD from patronage and nonpatronage activities, which conform to lines 1 to 24 of the Form 8903.

Enter the DPAD from patronage and nonpatronage sources reported on the attachment, on line 6a, column (a), Patronage, and line 6a, column (b), Nonpatronage, respectively, of Schedule G, Form 1120-C.

**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below:

Recordkeeping .....	5 hr., 58 min.
Learning about the law or the form .....	7 hr., 33 min.
Preparing, copying, assembling, and sending the form to the IRS .....	7 hr., 58 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

**SOUTH CAROLINA ELECTRIC & GAS COMPANY  
OFFICE OF REGULATORY STAFF FIRST CONTINUING AUDIT REQUEST  
DOCKET NO. 2012-218-E**

**REQUEST NO. 1-80**

Please provide the following income tax data for SCE&G separated by Total Company, S.C. Retail, Total Electric Operations and FERC Wholesale Electric Operations for the test year:

- 1) Federal Income Taxes:
  - a. Operating Federal Income Taxes Deferred accelerated tax
  - b. Depreciation
  - c. Federal Income Taxes – Operating
  - d. Income Credits resulting from prior deferrals of Federal Income Taxes.
  - e. Investment Credit Net:
    - i. Investment credit realized
    - ii. Investment credit amortized-Pre-revenue Act of 1971
    - iii. Investment credit amortized-Revenue Act of 1971
- 2) Reconciliation of book to taxable income and a calculation of the Federal Income Tax expense for the twelve months of the test year.
- 3) Provide SCE&G's calculation of test year State Income Tax expense.

**RESPONSE NO. 1-80**

See attached.

SOUTH CAROLINA ELECTRIC & GAS COMPANY  
OFFICE OF REGULATORY STAFF FIRST CONTINUING AUDIT REQUEST  
DOCKET NO. 2012-218-E

Response No. 1-80 (1)

	<u>TOTAL</u>	<u>ELEC</u>	<u>GAS</u>
(a) OPERATING FEDERAL INCOME TAXES			
DEFERRED ACCELERATED TAX DEPRECIATION	\$207,018,080	\$190,831,580	\$16,186,500
(c) FEDERAL INCOME TAXES - OPERATING	\$151,047,193	\$143,006,093	\$8,041,100
(d) INCOME CREDITS RESULTING FROM PRIOR DEFERRALS OF FEDERAL INCOME TAXES	\$93,190,900	\$73,462,400	\$19,728,500
(e) INVESTMENT CREDIT NET			
(i) INVESTMENT CREDIT REALIZED *	\$5,753,300	\$5,003,300	\$750,000
(i) INVESTMENT CREDIT REALIZED **	\$24,682,500	\$23,516,100	\$1,166,400
(ii) INVESTMENT CREDIT AMORTIZED - PRE REVENUE ACT OF 1971	\$0	\$0	\$0
(iii) INVESTMENT CREDIT AMORTIZED - REVENUE ACT OF 1971	\$2,401,200	\$2,288,400	\$112,800

\* AMOUNT OF CURRENT STATE INCOME TAX REDUCTION FOR 2011 FOR STATE OF SOUTH CAROLINA ECONOMIC IMPACT ZONE INVESTMENT TAX CREDITS ALLOWED PURSUANT TO SOUTH CAROLINA CODE SECTION 12-14-60. NO PART OF THESE CREDITS WERE DEFERRED.

\*\* AMOUNT OF AMORTIZATION OF PREVIOUSLY DEFERRED STATE OF SOUTH CAROLINA ECONOMIC IMPACT ZONE INVESTMENT TAX CREDITS ALLOWED PURSUANT TO SOUTH CAROLINA CODE SECTION 12-14-60.

SOUTH CAROLINA ELECTRIC & GAS COMPANY  
OFFICE OF REGULATORY STAFF FIRST CONTINUING AUDIT REQUEST  
DOCKET NO. 2012-218-E

Exhibit (RCS-5)  
Docket No. 2012-218-E  
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**Response No. 1-80 (2)**

SCEG FEDERAL INCOME TAX ACCRUAL  
YEAR TO DATE DECEMBER 2011

	ELECTRIC	GAS	TOTAL
OPERATING REVENUES	\$2,432,190,192	\$388,056,979	\$2,820,247,171
NON UTILITY INCOME	\$0	\$0	\$0
TOTAL INCOME	\$2,432,190,192	\$388,056,979	\$2,820,247,171
BOOK EXPENSES	\$0	\$0	\$0
OPER & MAINTENANCE	\$1,441,895,463	\$304,258,378	\$1,746,153,841
DEPRECIATION & AMORT	\$252,077,961	\$24,132,646	\$276,210,607
TAXES OTHER THAN INCOME	\$159,836,139	\$19,171,225	\$179,007,365
INTEREST EXPENSE	\$168,439,080	\$15,670,616	\$184,109,696
OTHER INC DEDUCTIONS	\$0	\$0	\$0
TOTAL EXPENSE	\$2,022,248,644	\$363,232,865	\$2,385,481,509
INCOME BEFORE INC TAXES	\$409,941,548	\$24,824,114	\$434,765,662
STATE INC TAX DEDUCTION	\$9,355,100	(\$362,500)	\$8,992,600
AFUDC - DEBT PER INCOME STATEMENT	\$6,996,039	\$174,913	\$7,170,952
ESTIMATED TAX OVERHEAD FOR AFUDC	(\$26,354,819)	\$0	(\$26,354,819)
ESTIMATED TAX OVERHEAD FOR AFUDC - NEW NUCLEAR	(\$65,752,531)	\$0	(\$65,752,531)
BOOK DEPR CHGD OPER	(\$3,328,901)	(\$369,878)	(\$3,698,779)
BOOK DEPRECIATION & AMORT	(\$252,077,961)	(\$24,132,646)	(\$276,210,607)
BOOK DEPRECIATION & AMORT SCANA SERV	\$7,361,254	\$1,013,576	\$8,374,830
BOOK EXP NUCL FUEL	(\$40,014,008)	\$0	(\$40,014,008)
CONTRIBUTION IN AID CONSTRUCTION	(\$3,244,149)	\$0	(\$3,244,149)
TAX DEPR NUCL FUEL	\$32,538,336	\$0	\$32,538,336
TAX DEPRECIATION - 174 AMOUNT FOR NEW NUCLEAR	\$5,775,000	\$0	\$5,775,000
TAX DEPRECIATION - PER SYSTEM (including repairs, Lake Murray)	\$464,722,753	\$35,234,719	\$499,957,472
TAX DEPRECIATION ADJ. - REPAIRS (WITH CPI REVERSAL)	\$91,625,903		\$91,625,903
TAX DEPRECIATION ADJ. - 481a ALREADY IN SYSTEM	(\$3,547,536)		(\$3,547,536)
TAX DEPRECIATION ADJ. - COLA FRANCHISE	\$5,633,761		\$5,633,761
TAX DEPRECIATION ADJ. - INTANGIBLES ENVIRONMENTAL	(\$1,011,199)		(\$1,011,199)
TAX DEPRECIATION ADJ. - R&E SOFTWARE	\$1,974,897		\$1,974,897
TAX DEPRECIATION ADJ NEEDED ON REPORT 12 (FOR RATE DEPT)	(\$178,346)	\$0	(\$178,346)
DEFERRED FUEL	\$13,834,000	(\$124,000)	\$13,710,000
EARLY RETIREMENT	\$1,062,902	\$0	\$1,062,902
ELEC DEMAND SIDE MGT	\$10,244,000	\$0	\$10,244,000
ENVIRONMENTAL CLEAN UP	\$124,000	\$3,074,000	\$3,198,000
INJURIES AND DAMAGES	(\$373,365)	\$0	(\$373,365)
INVENTORY CAP SECTION 263A	\$0	(\$271,527)	(\$271,527)
LONG TERM DISABILITY	(\$1,641,045)	\$0	(\$1,641,045)
MAJOR MAINTENANCE	(\$6,682,000)	\$0	(\$6,682,000)
MAUFACTURER'S DEDUCTION	\$9,844,057	\$0	\$9,844,057
MEALS AND LOBBYING	(\$720,000)	(\$80,000)	(\$800,000)
NO2 EMISSION ALLOWANCES	\$20,792	\$0	\$20,792
NUCLEAR DECOMMISSIONING	(\$3,224,916)	\$0	(\$3,224,916)

SOUTH CAROLINA ELECTRIC & GAS COMPANY  
OFFICE OF REGULATORY STAFF FIRST CONTINUING AUDIT REQUEST  
DOCKET NO. 2012-218-E

Exhibit (RCS-5)  
Docket No. 2012-218-E  
Page 18 of 26

**Response No. 1-80 (2)**

SCEG FEDERAL INCOME TAX ACCRUAL  
YEAR TO DATE DECEMBER 2011

	ELECTRIC	GAS	TOTAL
NUCLEAR REFUELING	\$7,080,000	\$0	\$7,080,000
OTHER POST RETIRE BENEFITS	(\$1,562,003)	(\$302,323)	(\$1,864,326)
PALMETTO CENTER LEASE LITIGATION	(\$750,000)	\$0	(\$750,000)
PREPAYMENT ACCELERATION	\$12,228,000	\$2,792,000	\$15,020,000
REACQUIRED DEBT ADJTS	(\$1,262,000)	\$0	(\$1,262,000)
REG ASSET CUST AW PRG VINT	\$0	(\$193,445)	(\$193,445)
REG ASSET RECOVERY CAPACITY	(\$296,000)	\$0	(\$296,000)
REGULATORY ASSET - ASSET ENVIRONMENTAL	(\$94,783)	\$0	(\$94,783)
REGULATORY ASSET - POLLUTION CONTROL	(\$282,658)	\$0	(\$282,658)
STORM DAMAGE BOOK ACCRUAL	\$6,652,000	\$0	\$6,652,000
UNCOLLECTIBLE ACCOUNTS	\$274,004	\$0	\$274,004
UNEARNED REVENUE	\$15,981	\$0	\$15,981
VCS COST	(\$183,816)	\$0	(\$183,816)
TOTAL ADJTS	\$274,780,743	\$16,452,889	\$291,233,632
TAXABLE INCOME	\$135,160,805	\$8,371,225	\$143,532,030
TAX COMPUTED AT 35%	\$47,306,300	\$2,929,900	\$50,236,200
TAX RECORDED FOR CURRENT YEAR	\$47,306,300	\$2,929,900	\$50,236,200
ADJUSTMENT RECORDED FOR PRIOR YEARS	\$11,237,700	(\$2,148,000)	\$9,089,700
TOTAL CURRENT FEDERAL INCOME TAX RECORDED	\$58,544,000	\$781,900	\$59,325,900

SOUTH CAROLINA ELECTRIC & GAS COMPANY  
OFFICE OF REGULATORY STAFF FIRST CONTINUING AUDIT REQUEST  
DOCKET NO. 2012-218-E

Response No. 1-80 (3)

SCEG STATE INCOME TAX ACCRUAL  
YEAR TO DATE DECEMBER 2011

	ELECTRIC	GAS	ST TOTAL
OPERATING REVENUES	\$2,432,190,192	\$388,056,979	\$2,820,247,171
NON UTILITY INCOME			\$0
TOTAL INCOME	\$2,432,190,192	\$388,056,979	\$2,820,247,171
BOOK EXPENSES			
OPER & MAINTENANCE	\$1,441,895,463	\$304,258,378	\$1,746,153,841
DEPRECIATION & AMORT	\$252,077,961	\$24,132,646	\$276,210,607
TAXES OTHER THAN INCOME	\$159,836,139	\$19,171,225	\$179,007,365
INTEREST EXPENSE	\$168,439,080	\$15,670,616	\$184,109,696
TOTAL EXPENSE	\$2,022,248,644	\$363,232,865	\$2,385,481,509
INCOME BEFORE INC TAXES	\$409,941,548	\$24,824,114	\$434,765,662
AFUDC - DEBT PER INCOME STATEMENT	\$6,996,039	\$174,913	\$7,170,952
ESTIMATED TAX OVERHEAD FOR AFUDC	(\$26,354,819)		(\$26,354,819)
ESTIMATED TAX OVERHEAD FOR AFUDC - NEW NUCLEAR	(\$65,752,531)		(\$65,752,531)
BOOK DEPR CHGD OPER	(\$3,328,901)	(\$369,878)	(\$3,698,779)
BOOK DEPRECIATION & AMORT	(\$252,077,961)	(\$24,132,646)	(\$276,210,607)
BOOK DEPRECIATION & AMORT SCANA SERV	\$7,361,254	\$1,013,576	\$8,374,830
BOOK EXP NUCL FUEL	(\$40,014,008)		(\$40,014,008)
CONTRIBUTION IN AID CONSTRUCTION	(\$3,244,149)		(\$3,244,149)
TAX DEPR NUCL FUEL	\$32,538,336		\$32,538,336
TAX DEPRECIATION - 174 AMOUNT FOR NEW NUCLEAR	\$5,775,000		\$5,775,000
TAX DEPRECIATION - PER SYSTEM (including repairs, Lake Murray)	\$323,831,180	\$35,419,644	\$359,250,824
TAX DEPRECIATION ADJ. - REPAIRS (WITH CPI REVERSAL)	\$91,625,903		\$91,625,903
TAX DEPRECIATION ADJ. - 481a ALREADY IN SYSTEM	(\$3,547,536)		(\$3,547,536)
TAX DEPRECIATION ADJ. - COLA FRANCHISE	\$5,614,693		\$5,614,693
TAX DEPRECIATION ADJ. - INTANGIBLES ENVIRONMENTAL	(\$1,011,199)		(\$1,011,199)
TAX DEPRECIATION ADJ. - R&E SOFTWARE	\$1,974,897		\$1,974,897
TAX DEPRECIATION ADJ NEEDED ON REPORT 12 (FOR RATE DEPT)	(\$38,000)	(\$4,000)	(\$42,000)
DEFERRED FUEL	\$13,834,000	(\$124,000)	\$13,710,000
EARLY RETIREMENT	\$1,062,902		\$1,062,902
ELEC DEMAND SIDE MGT	\$10,244,000		\$10,244,000
ENVIRONMENTAL CLEAN UP	\$124,000	\$3,074,000	\$3,198,000
INJURIES AND DAMAGES	(\$373,365)		(\$373,365)
INVENTORY CAP SECTION 263A		(\$271,527)	(\$271,527)
LONG TERM DISABILITY	(\$1,641,045)		(\$1,641,045)
MAJOR MAINTENANCE	(\$6,682,000)		(\$6,682,000)
MEALS AND LOBBYING	(\$720,000)	(\$80,000)	(\$800,000)
NO2 EMISSION ALLOWANCES	\$20,792		\$20,792
NON TAXABLE REVENUE	\$2,902,516	\$76,984	\$2,979,500
NUCLEAR DECOMMISSIONING	(\$3,224,916)		(\$3,224,916)
NUCLEAR REFUELING	\$7,080,000		\$7,080,000
OTHER POST RETIRE BENEFITS	(\$1,562,003)	(\$302,323)	(\$1,864,326)
PALMETTO CENTER LEASE LITIGATION	(\$750,000)		(\$750,000)
PREPAYMENT ACCELERATION	\$12,228,000	\$2,792,000	\$15,020,000
REACQUIRED DEBT ADJTS	(\$1,262,000)		(\$1,262,000)

SOUTH CAROLINA ELECTRIC & GAS COMPANY  
OFFICE OF REGULATORY STAFF FIRST CONTINUING AUDIT REQUEST  
DOCKET NO. 2012-218-E

**Response No. 1-80 (3)**

SCEG STATE INCOME TAX ACCRUAL  
YEAR TO DATE DECEMBER 2011

	ELECTRIC	GAS	ST TOTAL
REG ASSET CUST AW PRG VINT		(\$193,445)	(\$193,445)
REG ASSET RECOVERY CAPACITY	(\$296,000)		(\$296,000)
REGULATORY ASSET - ASSET ENVIRONMENTAL	(\$94,783)		(\$94,783)
REGULATORY ASSET - POLLUTION CONTROL	(\$282,658)		(\$282,658)
STORM DAMAGE BOOK ACCRUAL	\$6,652,000		\$6,652,000
UNCOLLECTIBLE ACCOUNTS	\$274,004		\$274,004
UNEARNED REVENUE	\$15,981		\$15,981
VCS COST	(\$183,816)		(\$183,816)
TOTAL ADJTS	\$117,713,807	\$17,073,298	\$134,787,105
TAXABLE INCOME	\$292,227,741	\$7,750,816	\$299,978,557
TAX COMPUTED AT 5%	\$14,611,400	\$387,500	\$14,998,900
LESS: JOBS TAX CREDIT	(\$253,000)		(\$253,000)
LESS: STATE INVESTMENT TAX CREDIT	(\$5,003,300)	(\$750,000)	(\$5,753,300)
TAX RECORDED FOR CURRENT YEAR	\$9,355,100	(\$362,500)	\$8,992,600
ADJUSTMENT RECORDED FOR PRIOR YEARS	\$1,493,600	(\$1,260,400)	\$233,200
TOTAL CURRENT STATE INCOME TAX RECORDED	\$10,848,700	(\$1,622,900)	\$9,225,800

**FERC FORM NO. 1/3-Q:  
REPORT OF MAJOR ELECTRIC UTILITIES, LICENSEES AND OTHER**

IDENTIFICATION		
01 Exact Legal Name of Respondent South Carolina Electric & Gas Company		02 Year/Period of Report End of 2011/Q4
03 Previous Name and Date of Change (if name changed during year) / /		
04 Address of Principal Office at End of Period (Street, City, State, Zip Code) 100 SCANA Parkway, Cayce, SC 29033-3712		
05 Name of Contact Person Keith Coffey, Jr.		06 Title of Contact Person Assistant Controller
07 Address of Contact Person (Street, City, State, Zip Code) 220 Operation Way-MC B126, Cayce, SC 29033-3701		
08 Telephone of Contact Person, including Area Code (803) 217-7187	09 This Report Is (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	10 Date of Report (Mo, Da, Yr) / /
ANNUAL CORPORATE OFFICER CERTIFICATION		
<p>The undersigned officer certifies that:</p> <p>I have examined this report and to the best of my knowledge, information, and belief all statements of fact contained in this report are correct statements of the business affairs of the respondent and the financial statements, and other financial information contained in this report, conform in all material respects to the Uniform System of Accounts.</p>		
01 Name Jimmy E. Addison	03 Signature  Jimmy E. Addison	04 Date Signed (Mo, Da, Yr) 04/16/2012
02 Title Senior Vice President and CFO	<p>Title 18, U.S.C. 1001 makes it a crime for any person to knowingly and willingly to make to any Agency or Department of the United States any false, fictitious or fraudulent statements as to any matter within its jurisdiction.</p>	



Name of Respondent South Carolina Electric & Gas Company		This Report Is: (1) <input type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report End of 2011/Q4
<b>RECONCILIATION OF REPORTED NET INCOME WITH TAXABLE INCOME FOR FEDERAL INCOME TAXES</b>				
<p>1. Report the reconciliation of reported net income for the year with taxable income used in computing Federal income tax accruals and show computation of such tax accruals. Include in the reconciliation, as far as practicable, the same detail as furnished on Schedule M-1 of the tax return for the year. Submit a reconciliation even though there is no taxable income for the year. Indicate clearly the nature of each reconciling amount.</p> <p>2. If the utility is a member of a group which files a consolidated Federal tax return, reconcile reported net income with taxable net income as if a separate return were to be filed, indicating, however, intercompany amounts to be eliminated in such a consolidated return. State names of group member, tax assigned to each group member, and basis of allocation, assignment, or sharing of the consolidated tax among the group members.</p> <p>3. A substitute page, designed to meet a particular need of a company, may be used as long as the data is consistent and meets the requirements of the above instructions. For electronic reporting purposes complete Line 27 and provide the substitute Page in the context of a footnote.</p>				
Line No.	Particulars (Details) (a)	Amount (b)		
1	Net Income for the Year (Page 117)	306,235,950		
2				
3				
4	Taxable Income Not Reported on Books			
5	Interest Capitalized	92,236,421		
6	Contributions in Aid of Construction	3,244,149		
7	Deferred Capacity	296,000		
8	Inventory Capitalization under 263A	271,527		
9	Deductions Recorded on Books Not Deducted for Return			
10	Book Depreciation and Amortization	267,835,777		
11	Total Net Book Income Tax (Including Investment Tax Credit)	135,156,248		
12	Book Expense - Nuclear Fuel	40,014,008		
13	Other	23,523,924		
14	Income Recorded on Books Not Included in Return			
15	Allowance for Funds Used During Construction	20,570,744		
16	Deferred Fuel Costs	13,710,000		
17				
18				
19	Deductions on Return Not Charged Against Book Income			
20	Tax Depreciation and Amortization	541,459,033		
21	Repair Allowance Deduction	91,625,903		
22	Prepayment Acceleration	15,020,000		
23	Demand Side Management	10,244,000		
24	Domestic Production Activities Deduction	9,844,057		
25	State Income Tax Deduction	8,742,100		
26	Other	18,800,344		
27	Federal Tax Net Income	138,797,823		
28	Show Computation of Tax:			
29	Tax @ 35%	48,579,238		
30	Research Credit	-147,800		
31	Partnership Credits	-2,295,961		
32	Adjustments for Prior Years	6,630,100		
33	Current Federal Income Tax Expense Recorded	52,765,577		
34				
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**SOUTH CAROLINA ELECTRIC & GAS COMPANY  
AARP FIRST CONTINUING AUDIT REQUEST  
DOCKET NO. 2012-218-E**

**REQUEST NO. 1-76**

Has the Company prepared any calculations related to Internal Revenue Code Section 199, Domestic Production Activities Deductions for any year, 2009 through 2011?

- a) If not, explain fully why not.
- b) If so, please provide such calculations.

**RESPONSE NO. 1-76**

- a) For 2009, the Company did not prepare any calculations related to IRC Section 199. Due to its bonus depreciation election and its repairs deduction, the Company determined that no domestic production activities deduction was available.
- b) See the attached calculations supporting the domestic production activities deduction claimed in the 2010 and 2011 income tax returns.

2011 MANUFACTURING DEDUCTION CALCULATION  
(CR)/DR

SCE&G

UNADJUSTED BOOK PRODUCTION INCOME	(280,974,266)
DIRECT M-1S	30,367,938
PRODUCTION % OF EXPENSES	100.00%
ALLOCATION OF M-1S	(30,367,938)
NON DIRECT M-1S	(136,216,477)
PRODUCTION % OF EXPENSES	65.00%
ALLOCATION OF M-1S	(88,538,806)
LESS INTEREST INCLUDED ABOVE	
ALLOCATION OF SCANA INTEREST	(20,676,104)
STATE TAX DEDUCTION	(1613,278)
OTHER PARTNERSHIPS	
QPAI (INCOME) / LOSS	(216,853,752)

Bottom Line Impact

QPAI, 50% wages, or taxable income	
9% Rate	(216,853,752)
Tax deduction	9%
35% tax rate	(19,516,838)
Income Statement Impact	35%
	(6,830,893)

Separate Company If not limited	
	(216,853,752)
	9%
	(19,516,838)
	35%
	(6,830,893)

Separate SCE&G (Company) - Limitation	
Due to taxable income	(180,483,974)
	9%
	(16,243,558)
	35%
	(5,685,245)

Consolidated Limitation	
	(203,452,341)
	9%
	(18,310,711)
	35%
	(6,408,749)

This limitation was not used in 2011 since the Company filed as part of a consolidated return. However, the calculation was shown here to show the limitation if the Company filed a stand alone return.

**SOUTH CAROLINA ELECTRIC & GAS COMPANY  
AARP FIRST CONTINUING AUDIT REQUEST  
DOCKET NO. 2012-218-E**

**REQUEST NO. 1-75**

Has the Company claimed all available bonus tax depreciation in each year, 2009 through 2011?

- a) If not, explain fully why not.
- b) If so, identify and explain the change, provide the related documents including the pages from the respective tax returns and separate return calculations, and identify the impacts on ADIT by year that resulted from the change in tax accounting.

**RESPONSE NO. 1-75**

- a) For 2009 and 2010, the Company claimed all available bonus tax depreciation. For 2011, the Company elected to claim bonus depreciation for tax classes of property including MACRS 3, 5, 7, 10, and 15 year property; however, the Company did not elect bonus depreciation for MACRS 20 year property. By electing out of bonus depreciation for this class of property, the Company was able to increase its domestic production activities deduction under IRC Section 199. See our response to AARP Request No. 1-73 for amounts of ADIT related to bonus depreciation in this rate case filing.
- b) The election of bonus depreciation did not require any change in tax accounting method.

**SOUTH CAROLINA ELECTRIC & GAS COMPANY  
AARP FIRST CONTINUING AUDIT REQUEST  
DOCKET NO. 2012-218-E**

**REQUEST NO. 1-80**

Did any situations at affiliates or the parent company in 2010 or 2011 prevent the Company from obtaining or realizing the full benefit of tax deductions for any of the following:

- a) Repairs
- b) Bonus tax depreciation
- c) Domestic production activities?

**RESPONSE NO. 1-80**

- a) Repairs – There were no limitations.
- b) Bonus tax depreciation – There were no additional limitations from an affiliate or the parent company. However, see response to AARP Request No. 1-75 regarding the Company's non election of bonus tax depreciation for one class of property so as to increase the availability of the domestic production activities deduction for 2011.
- c) Domestic Production Activities – There was no limitation for 2010. The deduction in 2011 was partially limited due to consolidated taxable income. See our response to AARP Request No. 1-76.